SIERRA MADRE FUNDING, LTD.

(Incorporated with limited liability in the Cayman Islands)

SIERRA MADRE FUNDING (DELAWARE) CORP.

U.S.$400,000,000 Class A-1LT-a Floating Rate Notes Due 2039
U.S.$57,500,000 Class A-2 Floating Rate Notes Due 2039
U.S.$40,500,000 Class B Floating Rate Notes Due 2039
U.S.$24,000,000 Class C Floating Rate Notes Due 2039
U.S.$15,000,000 Class D Floating Rate Notes Due 2039
18,000 Class E Shares (Par Value U.S. $0.01 per share)

Secured (with respect to the Notes) Primarily by a Portfolio of Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, CDO Securities, Insured Securities, Asset-Backed Securities, REIT Debt Securities and Interest Only Securities

---

The Notes (as defined herein) and the Class E Shares (as defined herein) (the "Class E Shares" and, together with the Notes, the "Securities") are being offered hereby by Goldman, Sachs & Co. (the "Initial Purchaser") in the United States to qualified institutional buyers (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in reliance on Rule 144A under the Securities Act, and, solely in the case of the Class E Shares, to accredited investors (as defined in Rule 501(a) under the Securities Act) who have a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act. The Notes and the Class E Shares are being offered hereby in the United States only to persons that are also "qualified purchasers" for purposes of Section 3(c)(7) under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). The Notes and the Class E Shares are being offered hereby by Goldman, Sachs & Co., selling through its agent, Goldman Sachs International, outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. See "Underwriting." The Issuer (as defined herein) is issuing 18,000 Class E Shares (with an aggregate initial Stated Amount of U.S.$18,000,000).

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Securities.

There is no established trading market for the Securities. Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought or granted.

It is a condition of the issuance of the Notes that the Class A-1LT-a Notes, the Class A-1LT-b Notes and the Class A-2 Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A3" by Moody's and at least "A-" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Shares be issued with a rating of at least "Ba1" by Moody's as to the ultimate receipt of the Rated Stated Amount of the Class E Shares. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings."

The Securities purchased from the Issuers by the Initial Purchaser will be offered by them from time to time for sale in negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date.

The Initial Purchaser expects to deliver the Notes in book-entry form through the facilities of The Depository Trust Company and the Class E Shares in definitive, certificated form in New York, New York on July 29, 2004, against payment therefor in immediately available funds.

continued on next page

Goldman, Sachs & Co.

Offering Circular dated July 27, 2004.

continued from cover

THE ASSETS OF THE ISSUER (AS DEFINED HEREIN) ARE THE SOLE SOURCE OF PAYMENTS ON THE SECURITIES. THE SECURITIES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE PUT COUNTERPARTY, ANY HEDGE COUNTERPARTY (OR ANY GUARANTOR THEREOF), THE COLLATERAL MANAGER, GOLDMAN, SACHS & CO. (AS INITIAL PURCHASER OR AS CP NOTE PLACEMENT AGENT), GOLDMAN SACHS INTERNATIONAL, THE ISSUER MANAGER (AS DEFINED HEREIN), THE AGENTS (AS DEFINED HEREIN), THE TRUSTEE (AS DEFINED HEREIN), THE SECURITIES INTERMEDIARY (AS DEFINED HEREIN), THE SHARE TRUSTEE (AS DEFINED HEREIN) OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND NEITHER OF THE ISSUERS (AS DEFINED HEREIN) WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE SECURITIES ARE BEING OFFERED HEREBY ONLY TO (A) (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND, SOLELY IN THE CASE OF THE CLASS E SHARES, ACCREDITED INVESTORS (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) THAT HAVE A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND, WHO ARE (2) QUALIFIED PURCHASERS FOR PURPOSES OF SECTION 3(C)(7) UNDER THE INVESTMENT COMPANY ACT AND (B) CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PURCHASERS AND SUBSEQUENT TRANSFEREES OF CLASS E SHARES WILL BE REQUIRED TO EXECUTE AND DELIVER A LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, AND PURCHASERS AND SUBSEQUENT TRANSFEREES OF NOTES WILL BE DEEMED TO HAVE MADE SUCH REPRESENTATIONS AND AGREEMENTS, AS SET FORTH UNDER "NOTICE TO INVESTORS." THE SECURITIES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Notes and the Class E Shares are being offered by Goldman, Sachs & Co. (in the case of the Securities offered outside the United States, selling through its agent, Goldman Sachs International), as specified herein, subject to their right to reject any order in whole or in part, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date (as defined herein). It is expected that the Notes will be ready for delivery in book-entry form only in New York, New York, on or about July 29, 2004 (the "Closing Date"), through the facilities of DTC (in the case of the Securities sold outside the United States, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), against payment therefor in immediately available funds. It is expected that the Class E Shares will be ready for delivery in definitive, certificated form in New York, New York on the Closing Date, against payment therefor in immediately available funds. The Notes sold in reliance on Rule 144A will be issued in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1 in excess thereof. The Notes sold in reliance on Regulation S will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof. The Class E Shares will be issued in minimum lots of 250 and integral multiples of one Class E Share in excess thereof.

Sierra Madre Funding, Ltd., a recently formed company incorporated with limited liability under the laws of the Cayman Islands (the "Issuer"), and Sierra Madre Funding (Delaware) Corp., a recently formed Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Issuers"), will issue U.S.$400,000,000 principal amount of Class A-1LT-a Floating Rate Notes Due 2039 (the "Class A-1LT-a Notes"), U.S.$57,500,000 principal amount of Class A-2 Floating Rate Notes Due 2039 (the "Class A-2 Notes" and, together with the Class A-1LT-a Notes and the Class A-1LT-b Notes (as defined herein), the "Class A Notes"), U.S.$40,500,000 principal amount of Class B Floating Rate Notes Due 2039 (the "Class B Notes"), U.S.$24,000,000 principal amount of Class C Floating Rate Notes Due 2039 (the "Class C Notes") and U.S$15,000,000 principal amount of Class D Floating Rate Notes Due 2039 (the "Class D Notes"; the Class D Notes, together with the Class A Notes, the Class B Notes and the Class C Notes, the "Notes"; and the Class D Notes, together with the Class B Notes and the Class C Notes, the "Subordinated Notes") pursuant to an Indenture (the "Indenture") dated as of the Closing Date among the Issuers and JPMorgan Chase Bank, as trustee and securities intermediary (the "Trustee" and "Securities Intermediary," respectively).

In addition, the Issuer will issue 18,000 Class E Shares, having a par value of $0.01 per share and a Stated Amount (as defined herein) of $1,000 per share (the "Class E Shares"), as part of its authorized share capital in accordance with the Issuer's memorandum and articles of association. The Class E Shares will be subject to a Class E Shares Paying and Transfer Agency Agreement.

On the Closing Date, the Issuers will also issue U.S.$945,000,000 of commercial paper notes (the "CP Notes") with maturities up to nine months from the date of issuance. In the event that the Put Agreement is exercised in whole or in part prior to its expiration, the Issuer will issue the Class A-1LT-b Notes (the "Class A-1LT-b Notes") in one or more placements to the Put Counterparty which will have an aggregate principal amount equal to the face amount of CP Notes to be retired as of the date of the exercise of the put option under the Put Agreement. Payments to the CP Notes and the Class A-1LT-b Notes, if any, will be paid *pari passu* with the Class A-1LT-a Notes. The CP Notes and the Class A-1LT-b Notes are not offered hereby.

The net proceeds received from, and associated with, the offering of the Securities and the CP Notes will be applied by the Issuer at the direction of Western Asset Management Company ("Western"), as collateral manager (in such capacity, the "Collateral Manager"), to purchase a portfolio consisting primarily of Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, CDO Securities, Insured Securities, Asset-Backed Securities, REIT Debt Securities and Interest Only Securities (collectively, "Collateral Assets," each as more fully defined herein), and pending the purchase of Collateral Assets, Eligible Investments. On the Closing Date, the Issuer will also enter into Hedge Agreements and the Put Agreement.

Interest will be payable on the Notes in arrears on the 7th day of every calendar month, or if any such date is not a Business Day, the immediately following Business Day commencing October 7, 2004 (each such date, a "Payment Date"). The Class A-1LT-a Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.38%, 0.64%, 0.88%, 1.85% and 3.25%, respectively, for the related Interest Accrual Period. Distributions will be payable on the Class E Shares from funds legally available therefor.

Principal generally will be payable on the CP Notes, Class A Notes, Class B Notes, Class C Notes and Class D Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in October 2009 or on the Payment Date in September 2009 to the extent of any Principal Proceeds which were not reinvested in Collateral Assets before the end of the Reinvestment Period. Principal on these Notes and the CP Notes will be payable earlier if the Reinvestment Period is terminated prior to September 2009 as described herein. Principal will also be payable on the Class D Notes in accordance with the Priority of Payments on each Payment Date in an amount equal to the Class D Notes Amortizing Principal Amount with respect to such Payment Date.

All payments on the Securities and the CP Notes will be made from Proceeds (and, with respect to the CP Notes, the CP Reserve Accounts) available in accordance with the Priority of Payments. On each Payment Date, payments on the Class A Notes and the CP Notes will generally be senior to payments on the Class B Notes, the Class C Notes, the Class D Notes and the Class E Shares; payments on the Class B Notes will generally be senior to payments on the Class C Notes, the Class D Notes and the Class E Shares; payments on the Class C Notes will generally be senior to payments on the Class D Notes and the Class E Shares; and payments on the Class D Notes will generally be senior to payments on the Class E Shares, in accordance with the Priority of Payments as described herein.

The Notes (other than the Class D Notes) are subject to mandatory redemption and the CP Notes are subject to defeasance in accordance with the Priority of Payments, as described herein, on any Payment Date if any Coverage Test is not satisfied and, with regard to the CP Notes, the Class A Notes and the Class B Notes only, if the Class C Overcollateralization Ratio is less than 75% on the related Determination Date. The Notes are also subject to redemption and the CP Notes are subject to defeasance in whole and not in part in connection with a Tax Redemption, an Optional Redemption and as a result of a successful Auction, as described herein.

The stated-maturity of the Notes is the Payment Date in September 2039 (each such Payment Date, the "Stated Maturity" with respect to the related Class of Notes). The date on which the Class E Shares are scheduled to receive their final distribution (if any) and to be redeemed by the Issuer is the Payment Date in September 2039 (the "Scheduled Class E Shares Redemption Date"). The actual final distributions on the Securities are expected to occur substantially earlier than their related Stated Maturity or the Scheduled Class E Shares Redemption Date, as applicable. See "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

The Notes sold in reliance on Rule 144A under the Securities Act ("Rule 144A") will be evidenced by one or more global notes (the "Rule 144A Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the Rule 144A Global Notes will trade in DTC's Same Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in immediately available funds. Except as described herein, beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Class E Shares will be evidenced by one or more definitive certificates in fully registered form. See "Description of the Notes and the Class E Shares."

This offering circular is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Securities described herein. The information contained in this offering circular has been provided by the Issuers and other sources identified herein. Except in respect of the information contained under the heading "The Collateral Manager," for which the Collateral Manager accepts sole responsibility, to the extent described in such section, no representation or warranty, express or implied, is made by the Initial Purchaser, the Collateral Manager, any Hedge Counterparty (or any guarantor thereof), the Put Counterparty, the Trustee, the Securities Intermediary, the Note Agents or the Class E Share Agents (the Note Agents and the Class E Share Agents, together, the "Agents") as to the accuracy or completeness of such information, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Collateral Manager, any Hedge Counterparty (or any guarantor thereof), the Put Counterparty, the Trustee, the Securities Intermediary or the Agents. Any reproduction or distribution of this offering circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Securities is prohibited. Each offeree of the Securities, by accepting delivery of this offering circular, agrees to the foregoing.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this offering circular and the offering and sale of the Securities in certain jurisdictions may be restricted by law. The Issuers and the Initial Purchaser require persons into whose possession this offering circular comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Securities, see "Underwriting." This offering circular does not constitute an offer of, or an invitation to purchase, any of the Securities in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

No invitation may be made to the public in the Cayman Islands to subscribe for the Securities.

There are restrictions on the offer and sale of the Securities in the United Kingdom. No action has been taken to permit the Securities to be offered to the public in the United Kingdom. This document may only be issued or passed on in or into the United Kingdom to any person to whom the document may lawfully be issued or passed on by reason of, or of any regulation made under, section 58 of the Financial Services Act of 1986 of Great Britain. It is the responsibility of all persons under whose control or into whose possession this document comes to inform themselves about and to ensure observance of all applicable provisions of the Public Offers of Securities Regulation 1995, as amended, and the Financial Services and Markets Act 2000 of the United Kingdom in respect of anything done in relation to the Notes and the Class E Shares, from or otherwise involving the United Kingdom. See "Underwriting."

The Securities may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

The Securities may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Securities may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Securities to the public in Singapore.

Each underwriter has acknowledged and agreed that the Securities have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law. As part of the offering, the underwriters may offer Securities in Japan to a list of 49 offerees in accordance with the above provisions.

NOTICE TO RESIDENTS OF THE REPUBLIC OF IRELAND

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE AN INVITATION TO THE PUBLIC TO PURCHASE OR SUBSCRIBE FOR ANY NOTES AND NEITHER IT NOR ANY FORM OF APPLICATION WILL BE ISSUED, CIRCULATED OR DISTRIBUTED TO THE PUBLIC.

THIS OFFERING CIRCULAR AND THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE PERSON TO WHOM IT IS ADDRESSED. ACCORDINGLY, IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART, NOR MAY ITS CONTENTS BE DISTRIBUTED IN WRITING OR ORALLY TO ANY THIRD PARTY AND IT MAY BE READ SOLELY BY THE PERSON TO WHOM IT IS ADDRESSED AND HIS/HER PROFESSIONAL ADVISERS.

In this offering circular, references to "U.S. Dollars," "$" and "U.S.$" are to United States dollars.

The Issuers (and, with respect to the information contained in this offering circular under the heading "The Collateral Manager," the Collateral Manager to the extent described in such section), having made all reasonable inquiries, confirm that the information contained in this offering circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this offering circular are honestly held and that there are no other facts the omission of which would make any such information or the expression of any such opinions or intentions misleading. The Issuers (and, with respect to the information in this offering circular under the heading "The Collateral Manager," the Collateral Manager, to the extent described in such section) take responsibility accordingly.

No person has been authorized to give any information or to make any representation other than those contained in this offering circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering circular nor any sale hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of this offering circular.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, EACH RECIPIENT OF THIS OFFERING MEMORANDUM AGREES AND ACKNOWLEDGES THAT THE ISSUERS HAVE AGREED THAT EACH OF THEM AND THEIR EMPLOYEES, REPRESENTATIVES AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS THE TAX TREATMENT AND TAX STRUCTURE OF THE SECURITIES, THE TRANSACTIONS DESCRIBED HEREIN AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH THE SECURITIES LAWS OF ANY APPLICABLE JURISDICTION.

PROSPECTIVE INVESTORS SHOULD READ THIS OFFERING CIRCULAR CAREFULLY BEFORE DECIDING WHETHER TO INVEST IN THE SECURITIES AND SHOULD PAY PARTICULAR ATTENTION TO THE INFORMATION SET FORTH UNDER THE HEADING "RISK FACTORS". INVESTMENT IN THE SECURITIES IS SPECULATIVE AND INVOLVES SIGNIFICANT RISK. INVESTORS SHOULD UNDERSTAND SUCH RISKS AND HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THEM FOR AN EXTENDED PERIOD OF TIME.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes or the Class E Shares offered hereby.

Each purchaser who has purchased Notes will be deemed to have represented and agreed, and each purchaser of Class E Shares will be required to represent and agree, in each case with respect to such Securities, as follows (terms used herein that are defined in Rule 144A, Regulation D or Regulation S are used herein as defined therein):

(1) (a) In the case of Notes sold in reliance on Rule 144A (the "Rule 144A Notes"), the purchaser of such Rule 144A Notes (i) is a qualified institutional buyer (as defined in Rule 144A) (a "Qualified Institutional Buyer") that is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan, (ii) is aware that the sale of Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Rule 144A Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and in a principal amount of not less than $250,000 for the purchaser and for each such account and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

(b) In the case of the Class E Shares, the purchaser of such Class E Shares, (i) is a Qualified Institutional Buyer that is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan, (ii) is aware that the sale of the Class E Shares to it is being made in reliance on Rule 144A, (iii) is acquiring the Class E Shares for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and, unless otherwise permitted by the Class E Shares Paying and Transfer Agency Agreement, is purchasing an aggregate number of not less than 250 Class E Shares for the purchaser and for each such account and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees; or, if the purchaser is not a Qualified Institutional Buyer, such purchaser (i) is a person who is an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than $10 million that is purchasing the Class E Shares for its own account, (ii) is not acquiring the Class E Shares with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below, (iii) is purchasing an aggregate number of not less than 250 Class E Shares (unless otherwise permitted by the Class E Shares Paying and Transfer Agency Agreement) and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

(2) The purchaser understands that the Securities have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer that is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan, and is purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in a transaction meeting the requirements of Rule 144A, (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) solely in the case of

the Class E Shares, to an Accredited Investor who has a net worth of not less than $10 million, and who shall have satisfied, and shall have represented, warranted, covenanted and agreed that it will continue to comply with, all requirements for transfer of the Class E Shares specified in the Class E Shares Purchase and Transfer Letter (as defined herein), this offering circular and the Class E Shares Paying and Transfer Agency Agreement, and all other requirements for it to qualify for an exemption from registration under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the Note Authenticating Agent (as defined herein) with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions described herein. Before any interest in a Class E Share may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Issuer and the Class E Share Transfer Agent with a letter, substantially in the form attached to this offering circular as Annex A (the "Class E Shares Purchase and Transfer Letter"). The purchaser understands and agrees that any purported transfer of Securities to a purchaser that does not comply with the requirements of this paragraph (2) will, in the case of the Notes, be null and void *ab initio* and, in the case of the Class E Shares, not be permitted or registered by the Class E Share Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Securities that is a U.S. Person and is not a Qualified Institutional Buyer and a Qualified Purchaser or, in the case of Class E Shares only, an Accredited Investor and a Qualified Purchaser (as defined herein), to sell its interest in such Securities, or the Issuers may sell such Securities on behalf of such owner.

(3) In the case of the Rule 144A Notes and the Class E Shares described in paragraph (1)(b) above, the purchaser of such Securities also understands that neither of the Issuers has been registered under the Investment Company Act. The purchaser and each account for which the purchaser is acquiring such Securities is a qualified purchaser for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"). The purchaser is acquiring Securities in a principal amount, in the case of Rule 144A Notes, of not less than U.S.$250,000 or, in the case of Notes sold in reliance on Regulation S ("Regulation S Notes"), of not less than U.S.$100,000, or is purchasing in the aggregate at least 250 Class E Shares, in each case for the purchaser and for each such account. The purchaser (or if the purchaser is acquiring Securities for any account, each such account) is acquiring the Securities as principal for its own account for investment and not for sale in connection with any distribution thereof. The purchaser and each such account: (a) was not formed for the specific purpose of investing in the Securities (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser), (b) to the extent the purchaser is a private investment company formed before April 30, 1996, the purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the purchaser agrees with respect to itself and each such account: (i) that it shall not hold such Securities for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes and (ii) that it shall not sell participation interests in the Securities or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Securities. The purchaser understands and agrees that any purported transfer of Securities to a purchaser that does not comply with the requirements of this paragraph (3) will, in the case of the Notes, be null and void *ab initio* and, in the case of the Class E Shares, not be permitted or registered by the Class E Share Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Securities that is a U.S. Person and is not a Qualified Purchaser, to sell its interest in such Securities, or the Issuers may sell such Securities on behalf of such owner.

(4) (a) With respect to the Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that either (i) the purchaser is not and will not be an ERISA Plan (as defined herein), a plan that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets include "plan assets" by reason of

any such plan's investment in the entity, or another employee benefit plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the Code ("Plan Assets") or (ii) the purchaser's purchase and holding of a Note (and transfer to the Put Counterparty, if applicable) do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such another plan, any substantially similar federal, state, local or foreign law) for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph (4)(a) shall be null and void *ab initio*.

(b) With respect to the Class E Shares purchased or transferred on or after the Closing Date: the purchaser or transferee must disclose in writing in advance to the Class E Share Transfer Agent (i) whether or not it is (A) an "employee benefit plan" (as defined in Section 3(3) of ERISA), whether or not subject to Title I of ERISA, (B) a "plan" described in Section 4975 of the Code, whether or not subject to Section 4975 of the Code, or (C) an entity whose underlying assets include "plan assets" within the meaning of ERISA by reason of a plan's investment in the entity (all such persons and entities described in clauses (A) through (C) being referred to herein as "Benefit Plan Investors"); (ii) if the purchaser is a Benefit Plan Investor, either (x) the purchase and holding of Class E Shares do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan not subject to ERISA or Section 4975 of the Code, any federal, state, local or foreign law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code) for which an exemption is not available or (y) the purchase and holding of Class E Shares is exempt under an identified Prohibited Transaction Class Exemption or individual exemption, based on the assumption that less than 25% of the outstanding Class E Shares are owned by Benefit Plan Investors; and (iii) whether or not it is the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person. If a purchaser is an insurance company acting on behalf of its general account, it will be permitted to so indicate, and to identify a maximum percentage of the assets in its general account that may be or become plan assets, in which case the insurance company will be required to make certain further agreements that would apply in the event that such maximum percentage would thereafter be exceeded. The purchaser agrees that, before any interest in a Class E Share may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Class E Share Transfer Agent with a Class E Shares Purchase and Transfer Letter, stating, among other things, whether the transferee is a Benefit Plan Investor. The purchaser acknowledges and agrees that no purchase or transfer will be permitted, and the Class E Share Transfer Agent will not register any such transfer, to the extent that the purchase or transfer would result in Benefit Plan Investors owning 25% or more of the outstanding Class E Shares immediately after such purchase or transfer (determined in accordance with the Class E Shares Transfer and Paying Agency Agreement). The foregoing procedures are intended to enable Class E Shares to be purchased by or transferred to Benefit Plan Investors at any time, although no assurance can be given that there will not be circumstances in which purchases or transfers of Class E Shares will be required to be restricted in order to comply with the aforementioned 25% limitation. See "ERISA Considerations."

(5) The purchaser is not purchasing the Securities with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands that an investment in the Securities involves certain risks, including the risk of loss of its entire investment in the Securities under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuers and the Securities as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Securities, including an opportunity to ask questions of, and request information from, the Issuer.

(6) In connection with the purchase of the Securities: (i) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Put Counterparty, any Hedge Counterparty (or guarantor thereof), the CP Note Placement Agents (as defined herein), the Trustee, the Agents, the Administrator (as defined

herein) or the Share Trustee (as defined herein) is acting as a fiduciary or financial or investment adviser for the purchaser; (ii) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Collateral Manager, the Put Counterparty, any Hedge Counterparty (or guarantor thereof), the CP Note Placement Agents, the Trustee, the Agents, the Administrator, or the Share Trustee other than in this offering circular for such Notes and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Put Counterparty, the CP Note Placement Agents, the Trustee, the Agents, the Administrator or the Share Trustee has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, results, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Securities; (iv) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and Class E Shares Transfer and Paying Agency Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Collateral Manager, the Put Counterparty, the CP Note Placement Agents, the Trustee, the Agents, the Administrator or the Share Trustee; (v) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Securities with a full understanding of all of the risks thereof (economic and otherwise), and is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the purchaser is a sophisticated investor.

(7) The purchaser understands that the Issuer may demand that any Holder of Rule 144A Global Notes who is determined not to be both a Qualified Institutional Buyer and a Qualified Purchaser and any Holder of Regulation S Global Notes who is determined to be a U.S. Person at the time of acquisition of such Notes, sell the Notes (A) to a person who is both a Qualified Institutional Buyer and a Qualified Purchaser in a transaction meeting the requirements of Rule 144A or (B) to a person who is not a U.S. Person in a transaction meeting the requirements of Regulation S and, if the Holder does not comply with such demand within thirty (30) days thereof, the Issuer may sell such Holder's interest in the Note.

(8) The purchaser acknowledges that it is its intent and that it understands it is the intent of the Issuer that, for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, the Issuer will be treated as a corporation, the Notes will be treated as indebtedness of the Issuer, and the Class E Shares will be treated as equity in the Issuer; the purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment.

(9) The purchaser understands that the Issuers, the Trustee, the Initial Purchaser, the Collateral Manager and their counsel will rely upon the accuracy and truth of the foregoing representations, and the purchaser hereby consents to such reliance.

(10) Pursuant to the terms of the Indenture, unless otherwise determined by the Issuers in accordance with the Indenture, the Notes will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF

THE DEALER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE AUTHENTICATING AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT EITHER (I) THE HOLDER IS NOT AND WILL NOT BE AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY, OR ANOTHER EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (II) THE HOLDER'S PURCHASE AND HOLDING OF A NOTE (AND TRANSFER TO THE PUT COUNTERPARTY, IF APPLICABLE) DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH ANOTHER PLAN, ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR FOREIGN LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF A NOTE TO A HOLDER THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

(11) Pursuant to the terms of the Class E Shares Paying and Transfer Agency Agreement and the Issuer's Memorandum and Articles of Association, unless otherwise determined by the Issuer in accordance with the Class E Shares Paying and Transfer Agency Agreement and the Issuer's Memorandum and Articles of Association, the certificates in respect of the Class E Shares will bear a legend to the following effect:

THE CLASS E SHARES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, DATED JULY 29, 2004 (THE "CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT") BY AND AMONG THE ISSUER OF THE CLASS E SHARES, JPMORGAN CHASE BANK (LONDON OFFICE), AS CLASS E SHARE PAYING AGENT AND CLASS E SHARE TRANSFER AGENT AND MAPLES FINANCE LIMITED, AS SHARE REGISTRAR. COPIES OF THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT MAY BE OBTAINED FROM THE CLASS E SHARE PAYING AGENT, THE CLASS E SHARE TRANSFER AGENT OR THE SHARE REGISTRAR.

THE CLASS E SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE CLASS E SHARES, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH CLASS E SHARES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY BENEFICIARIES OF THE PLAN, AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN $10 MILLION IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN AN AMOUNT OF NOT LESS THAN 250 CLASS E SHARES. FURTHERMORE

THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS EITHER A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE CLASS E SHARE TRANSFER AGENT. EACH TRANSFEROR OF THE CLASS E SHARES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF A CLASS E SHARE THAT IS A U.S. PERSON AND IS NOT (A) EITHER A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN $10 MILLION TO SELL SUCH CLASS E SHARES, OR MAY SELL SUCH CLASS E SHARES, ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF CLASS E SHARES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E SHARES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE CLASS E SHARE TRANSFER AGENT A CLASS E SHARES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (1)(X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY BENEFICIARIES OF THE PLAN, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A) UNDER THE SECURITIES ACT) AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

IF THE TRANSFER OF CLASS E SHARES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E SHARES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE CLASS E SHARE TRANSFER AGENT A CLASS E SHARES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE CLASS E SHARES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE CLASS E SHARE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN SECTION 4975 OF THE CODE, WHETHER OR NOT SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF A PLAN'S INVESTMENT IN THE

ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER IS A BENEFIT PLAN INVESTOR, EITHER (X) THE PURCHASE AND HOLDING OF CLASS E SHARES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF AN EMPLOYEE BENEFIT PLAN NOT SUBJECT TO ERISA OR SECTION 4975 OF THE CODE, ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE) FOR WHICH AN EXEMPTION IS NOT AVAILABLE OR (Y) THE PURCHASE AND HOLDING OF CLASS E SHARES IS EXEMPT UNDER AN IDENTIFIED PROHIBITED TRANSACTION CLASS EXEMPTION OR INDIVIDUAL EXEMPTION, BASED ON THE ASSUMPTION THAT LESS THAN 25% OF THE OUTSTANDING CLASS E SHARES ARE OWNED BY BENEFIT PLAN INVESTORS; AND (iii) WHETHER OR NOT IT IS THE ISSUER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) THAT HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN ITS GENERAL ACCOUNT THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE INSURANCE COMPANY WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN A CLASS E SHARE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE CLASS E SHARE TRANSFER AGENT WITH A CLASS E SHARES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE CLASS E SHARE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E SHARES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS E SHARES IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND WITH THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT.

DISTRIBUTIONS TO THE HOLDERS OF THE CLASS E SHARES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(12) The purchaser is not purchasing the Securities in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan with respect to United States federal income taxes within the meaning of U.S. Treasury Regulation Section 1.881-3(a)(4).

(13) The purchaser agrees, in the case of the Notes, to treat such Notes as debt for United States federal, state and local income taxes and, in the case of the Class E Shares, to treat such Class E Shares as equity for United States federal, state and local income tax purposes.

The Securities that are being offered hereby in reliance on the exemption from registration under Regulation S (the "Regulation S Notes"; the "Regulation S Class E Shares"; and collectively, the "Regulation S Securities") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Securities may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a

"Qualified Purchaser") or, solely in the case of the Class E Shares, that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act (an "Accredited Investor") who has a net worth of not less than $10 million and a Qualified Purchaser, and takes delivery in the form of (i) an interest in a Rule 144A Global Note in an amount at least equal to the minimum denomination applicable to the Rule 144A Global Notes or (ii) a Class E Share in a lot at least equal to 250 Class E Shares. See "Description of the Notes and the Class E Shares" and "Underwriting."

The requirements set forth under "Notice to Investors" above apply only to Securities offered in the United States, except for the requirements set forth in Paragraphs (4), (5), (6), (8), (9), (12) and (13) and except that the Regulation S Securities will bear the legends set forth in Paragraphs (10) and (11) under "Notice to Investors" above.

THE ISSUERS ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTION ENTITLED "THE COLLATERAL MANAGER." THE COLLATERAL MANAGER SOLELY ACCEPTS RESPONSIBILITY FOR THE INFORMATION PROVIDED IN "THE COLLATERAL MANAGER" SECTION TO THE EXTENT DESCRIBED IN SUCH SECTION. TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE ISSUERS, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EACH PURCHASER OF THE SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH NOTES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUERS, THE INITIAL PURCHASER, THE COLLATERAL MANAGER OR THEIR AGENTS SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resale of the Securities, the Issuers will be required under the Indenture and the Class E Shares Paying and Transfer Agency Agreement to furnish upon request to a holder or beneficial owner of a Security and to a prospective investor who is a Qualified Institutional Buyer designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) if, at the time of the request neither the Issuer nor the Co-Issuer, is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

To the extent the Issuer or the Trustee delivers any annual or periodic reports to the Holders of the Notes, the Issuer or the Trustee, as applicable, will include in such report a reminder that (1) each holder (other than those holders who are not U.S. Persons and have purchased their Notes outside the United States pursuant to Regulation S) is required to be (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser that can make all of the representations in the Indenture applicable to a holder who is a U.S. Person; (2) the Notes can only be transferred to a transferee that is (i) (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 under Regulation S; and (3) the Issuers have the right to compel any holder who does not meet the transfer restrictions set forth in the Indenture to transfer its Notes to a person designated by the Issuer or sell such Notes on behalf of the holder on such terms as the Issuer may determine in its discretion.

To the extent the Issuer or the Class E Share Paying Agent delivers any annual or periodic reports to the Holders of the Class E Shares, the Issuer or the Class E Share Paying Agent, as applicable, will include in such report a reminder that (1) each holder (other than those holders who are not U.S. Persons and have purchased their Class E Shares outside the United States pursuant to Regulation S) is required to be (a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth of not less than $10 million and (b) a Qualified Purchaser that can make all of the representations in the Class E Shares Purchase and Transfer Letter applicable to a holder who is a U.S. Person; (2) the Class E Shares can only be transferred to a transferee that is (i)(a) a Qualified Institutional Buyer or an Accredited Investor and (b) a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 under Regulation S; and (3) the Issuer has the right to compel any holder who does not meet the transfer restrictions set forth in the Class E Shares Paying and Transfer Agency Agreement to transfer its Class E Shares to a person designated by the Issuer or sell such Class E Shares on behalf of the holder.

In addition, notwithstanding the foregoing, any prospective purchaser (and each employee, representative, or other agent of a prospective purchaser) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering circular and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective purchaser relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with the prospective purchaser regarding the transactions contemplated herein.

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this offering circular. For definitions of certain terms used in this offering circular see "Appendix A — Certain Definitions" and for the location of the definitions of those and other terms, see "Index of Defined Terms." For a discussion of certain factors to be considered in connection with an investment in the Securities, see "Risk Factors."

The Issuers..... Sierra Madre Funding, Ltd. (the "Issuer") is a recently formed company incorporated under the laws of the Cayman Islands for the sole purpose of acquiring the Collateral Assets, Eligible Investments, entering into Hedge Agreements, the Put Agreement and the other Transaction Documents, co-issuing the Notes and the CP Notes, issuing the Class E Shares and engaging in certain related transactions. All of the Securities and the CP Notes will be issued on the Closing Date.

The Issuer will not have any significant assets other than the portfolio of Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, CDO Securities, Insured Securities, Asset-Backed Securities, REIT Debt Securities and Interest Only Securities (collectively, "Collateral Assets"); Eligible Investments; interest rate exchange protection agreements entered into between the Issuer and an Interest Rate Swap Counterparty (the "Interest Rate Swap Agreements"); cashflow timing protection agreements entered into between the Issuer and a Cashflow Swap Counterparty (the "Cashflow Swap Agreements"); currency rate exchange protection agreements entered into between the Issuer and a Currency Swap Counterparty (the "Currency Swap Agreements" and, together with the Interest Rate Swap Agreements and the Cashflow Swap Agreements, the "Hedge Agreements"); rights under any Securities Lending Agreements; the rights under the Put Agreement; the rights under the Collateral Management Agreement and the other Transaction Documents, as applicable, and certain other assets (collectively, the "Collateral") which will be pledged by the Issuer to the Trustee under the Indenture, for the benefit of the Secured Parties, as security for, among other obligations, the Issuers' obligations under the Notes and the CP Notes.

Sierra Madre Funding (Delaware) Corp. (the "Co-Issuer" and, together with the Issuer, the "Issuers") is a Delaware corporation, formed on April 2, 2004 for the sole purpose of co-issuing the Notes and the CP Notes.

The Co-Issuer will not have any assets (other than $100 of equity capital) and will not pledge any assets to secure the Notes and the CP Notes. The Co-Issuer will have no claim against the Issuer in respect of the Collateral Assets or otherwise.

The Collateral Manager..... Western Asset Management Company, a California corporation ("Western"), will perform certain advisory and administrative functions with respect to the Collateral pursuant to a collateral management agreement to be dated as of the Closing Date (the "Collateral Management Agreement") between the Issuer and Western, as collateral manager (in such capacity, the "Collateral Manager"). In addition, the Collateral Manager will advise the Issuer on the issuance and sale of the CP Notes. Western is a registered investment adviser under the United States Investment Advisers Act of 1940, as amended.

Securities Offered..... On the Closing Date, the Issuer and the Co-Issuer will issue U.S.$400,000,000 aggregate principal amount of Class A-1LT-a Floating Rate Notes Due 2039 (the "Class A-1LT-a Notes"), U.S.$57,500,000 principal amount of Class A-2 Floating Rate Notes Due 2039 (the "Class A-2 Notes" and, together with the Class A-1LT-a Notes and the Class A-1LT-b Notes (as defined below), the "Class A Notes"), U.S. $40,500,000 principal amount of Class B Floating Rate Notes Due 2039 (the "Class B Notes"), U.S. $24,000,000 principal amount of Class C Floating Rate Notes Due 2039 (the "Class C Notes") and U.S.$15,000,000 principal amount of Class D Floating Rate Notes Due 2039 (the "Class D Notes"; the Class D Notes, together with the Class A Notes, Class B Notes and Class C Notes, the "Notes"; and the Class D Notes, together with the Class B Notes and the Class C Notes, the "Subordinated Notes") pursuant to an Indenture (the "Indenture") dated as of the Closing Date among the Issuers and JPMorgan Chase Bank, as trustee and securities intermediary (the "Trustee" and "Securities Intermediary," respectively). Under the Indenture, JPMorgan Chase Bank will also act as paying agent for the Notes (the "Note Paying Agent"), as note calculation agent (the "Note Calculation Agent") and as authenticating agent for the Notes (the "Note Authenticating Agent") and, together with the Note Paying Agent, the Note Registrar, the Note Calculation Agent and the Listing and Paying Agent, the "Note Agents").

On the Closing Date, the Issuer will also issue 18,000 Class E Shares (the "Class E Shares" and, together with the Notes, the "Securities"), which have a par value of U.S. $0.01 per share, an initial stated amount of U.S. $1,000 per share (the "Stated Amount") and a Rated Stated Amount of U.S. $18,000,000 (the "Rated Stated Amount"), pursuant to its Memorandum and Articles of Association as part of its authorized share capital and certain resolutions of the board of directors passed at a meeting of the directors on or before the issue of the Class E Shares as memorialized in the minutes thereof (the "Resolutions").

The Class E Shares will be subject to the Class E Shares Paying and Transfer Agency Agreement (the "Class E Shares Paying and Transfer Agency Agreement") dated as of the Closing Date among the Issuer, JPMorgan Chase Bank (London office), as paying agent and transfer agent for the Class E Shares (in such respective capacities, the "Class E Share Paying Agent" and the "Class E Share Transfer Agent"), and Maples Finance Limited, as share registrar for the Class E Shares (the "Share Registrar" and together with the Class E Share Paying Agent and the Class E Share Transfer Agent, the "Class E Share Agents", and, together with the Note Agents, the "Agents"). The Note Paying Agent, the Listing and Paying Agent and any other note paying agents appointed from time to time under the Indenture are collectively referred to as the "Note Paying Agents." The Note Paying Agent, the Class E Share Paying Agent and the Listing and Paying Agent are collectively referred to as the "Paying Agents." The Note Authenticating Agent and the Class E Share Transfer Agent are collectively referred to as the "Transfer Agents."

The Indenture, the Collateral Management Agreement, the Hedge Agreements, the Securities Lending Agreements, the Collateral Administration Agreement, the Administration Agreement, the CP Issuing and Paying Agency Agreement, the Put Agreement, the Class E Shares

Paying and Transfer Agency Agreement and the memorandum and articles of association of the Issuer (the "Memorandum and Articles of Association") are collectively referred to as the "Transaction Documents."

Other Securities..... The Issuers will also issue on the Closing Date and from time to time thereafter U.S.$945,000,000 of commercial paper notes (the "CP Notes") with maturities up to 9 months from the date of issuance. The CP Notes (including any LIBOR CP Notes as described herein) will be issued pursuant to an issuing and paying agency agreement (the "CP Issuing and Paying Agency Agreement"), dated as of the Closing Date, among the Issuer, JPMorgan Chase Bank, as CP Issuing and Paying Agent (the "CP Issuing and Paying Agent") and the Collateral Manager. The maturity date of any CP Note will be extendable by up to three Business Days in the event the Put Option is exercised in accordance with the Put Agreement. See "Security for the Notes–Put Agreement" herein. If the Put Option under the Put Agreement is exercised in whole or in part, the Issuer will issue the Class A-1LT-b Notes (the "Class A-1LT-b Notes") in one or more placements to the Put Counterparty which will have an aggregate principal amount equal to the face amount of CP Notes to be retired as of the date of the exercise of such Put Option. The CP Notes and the Class A-1LT-b Notes are not offered hereby.

Closing Date..... The Issuers will issue the Notes and the CP Notes and the Issuer will issue the Class E Shares on or about July 29, 2004 (the "Closing Date").

Record Date ..... Payments in respect of principal of and interest on the Notes issued as Global Notes will be made to the person in whose name the relevant Global Note is registered at the close of business on the Business Day prior to such Payment Date. Distributions in respect of the Notes in definitive form and the Class E Shares will be made to the person in whose name the relevant Note or Class E Share, as applicable, is registered as of the close of business on the fifteenth day prior to such Payment Date occurs (or, if such day is not a Business Day, the next succeeding Business Day).

Status of the Securities..... The Notes and the CP Notes will be limited recourse obligations of the Issuers. The Class E Shares will be part of the authorized share capital of the Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for distribution on any Payment Date after payment of all amounts payable prior thereto under the Priority of Payments. Interest on the Class A-1LT-a Notes will be *pro rata* with interest on the Class A-2 Notes. Principal on the Class A-1LT-a Notes and the Class A-2 Notes will be paid either *pro rata* or *first* to the Class A-1LT-a Notes and *second* to the Class A-2 Notes depending on the circumstances as more fully described in the Priority of Payments. Payments with respect to the CP Notes and the Class A-1LT-b Notes will be paid *pari passu* with payments on the Class A-1LT-a Notes. The Class A Notes and the CP Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes and the Class E Shares; the Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Class E Shares and the Class C Notes will be senior in right of payment to the Class D Notes and the Class E Shares; and the Class D Notes will be senior in right of payment to the Class E Shares,

each to the extent provided in the Priority of Payments. See "Description of the Notes and the Class E Shares—Status and Security" and "—Priority of Payments."

Use of Proceeds ..... The net proceeds from and associated with the offering of the Securities and the CP Notes issued on the Closing Date (including an initial payment to the Issuer from the initial Interest Rate Swap Counterparty), after the payment of applicable fees and expenses, are expected to equal approximately $1,519,000,000. Approximately $1,519,000,000 of the net proceeds will be used by the Issuer on the Closing Date to purchase, or enter into agreements to purchase, a diversified portfolio of Collateral Assets which satisfy the Eligibility Criteria with an aggregate Principal Balance of approximately $1,496,500,000 and with accrued interest of approximately $3,500,000 and to enter into one or more Hedge Agreements as the Collateral Manager deems appropriate with proceeds of approximately $35,000,000.

Interest Payments and Certain Distributions ..... The Notes will accrue interest from the Closing Date and such interest will be payable monthly in arrears on the 7th day of each calendar month, or if any such date is not a Business Day, the immediately following Business Day commencing October 7, 2004 (each such date, a "Payment Date"). All payments on the Securities and the CP Notes will be made from Proceeds (and, with respect to the CP Notes, the CP Reserve Accounts and the CP Account) in accordance with the Priority of Payments.

The Class A-1LT-a Notes will bear interest during each Interest Accrual Period at a per annum rate equal to the London interbank offered rate for one-month Eurodollar deposits ("LIBOR") for such Interest Accrual Period *plus* 0.38% (the "Class A-1LT-a Note Interest Rate"), commencing on the Closing Date. The Class A-1LT-b-1 Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 0.36% on or before the September 2009 Payment Date and 0.40% thereafter (the "Class A-1LT-b-1 Note Interest Rate"), commencing on their date of issuance. The Class A-1LT-b-2 Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 0.28% on or before the September 2009 Payment Date and 0.32% thereafter (the "Class A-1LT-b-2 Note Interest Rate"), commencing on their date of issuance. The Class A-2 Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 0.64% (the "Class A-2 Note Interest Rate"), commencing on the Closing Date. The Class B Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 0.88% (the "Class B Note Interest Rate"), commencing on the Closing Date. The Class C Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 1.85% per annum commencing on the Closing Date (the "Class C Note Interest Rate"). The Class D Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 3.25% per annum commencing on the Closing Date (the "Class D Note Interest Rate").

The CP Notes (other than the LIBOR CP Notes as described herein) will be issued at a discount. To the extent CP Notes are issued with a LIBOR based interest rate (the "LIBOR CP Notes"), they will mature on a Payment Date and will have a maturity that is more than one month and up to nine months after their issuance. CP Notes issued with a maturity greater than three months after their issuance must be LIBOR CP Notes. The LIBOR CP Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period, commencing on their date of issuance (the "LIBOR CP Note Interest Rate"). Interest on the LIBOR CP Notes will be payable on each Payment Date pari passu with interest on the Class A-1LT-a Notes as described in the Priority of Payments. The maturity date of any CP Note is extendable by up to three Business Days in the event the Put Option is exercised in accordance with the Put Agreement. See "Security for the Notes–Put Agreement" herein. If the maturity date of a CP Note is so extended, the holder thereof will be entitled to receive accrued interest for the period of such extension at a per annum rate equal to LIBOR *plus* 0.16%. Payment of such accrued interest will be made first from the CP Interest Reserve Account and, then, to the extent of any shortfall, from the Collection Account in accordance with the Indenture.

LIBOR for the first Interest Accrual Period with respect to each Class of the Notes will be determined as of the second Business Day preceding the Closing Date. Calculations of interest on each Class of the Notes will be made based on a 360-day year and the actual number of days in each Interest Accrual Period.

To the extent interest is not paid on any Class C Notes on any Payment Date as a result of the operation of the Priority of Payments, such unpaid amount will be added to the principal amount, as applicable, of the Class C Notes ("Class C Deferred Interest"), and shall accrue interest at the Class C Note Interest Rate to the extent lawful and enforceable, until the Payment Date on which such interest is available to be paid in accordance with the Priority of Payments. To the extent interest is not paid on any Class D Notes on any Payment Date as a result of the operation of the Priority of Payments, such unpaid amount will be added to the principal amount, as applicable, of the Class D Notes ("Class D Deferred Interest"), and shall accrue interest at the Class D Note Interest Rate to the extent lawful and enforceable, until the Payment Date on which such interest is available to be paid in accordance with the Priority of Payments. Failure to pay interest on any Class A Notes, CP Notes or Class B Notes when due (after the applicable grace period) will be an Event of Default under the Indenture; *however,* the failure to pay any interest on the Class C Notes or the Class D Notes, while any Class A Notes, CP Notes or Class B Notes are outstanding, or the failure to pay any interest on the Class D Notes while any Class A Notes, CP Notes, Class B Notes or Class C Notes are outstanding, will not be an Event of Default under the Indenture. See "Description of the Notes and the Class E Shares" and "—Priority of Payments."

With respect to any Payment Date, the "Interest Accrual Period" is the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest

Accrual Period, or the date of issuance in the case of the first Interest Accrual Period and any LIBOR CP Notes) and ending on and including the day immediately preceding such Payment Date.

On each Payment Date, the Holders of the Class E Shares will be entitled to receive, after payment of items ranking higher in accordance with the Priority of Payments, and to the extent of funds legally available therefor, a distribution equal to the amount necessary for the Class E Shares to achieve an Internal Rate of Return of 10% (assuming an initial investment of $18,000,000 on the Closing Date). In addition, on each Payment Date the Holders of Class E Shares will be entitled to receive, after payment of items ranking higher in accordance with the Priority of Payments, including any Class E Shares Subordinate Collateral Management Fees accrued for such period, any remaining proceeds. Distributions on the Class E Shares will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Principal Payments on the Notes; Redemption of the Class E Shares..... The Notes will mature on the Payment Date in September 2039 (each such Payment Date, the "Stated Maturity" with respect to the related Class of Notes). The Class E Shares are scheduled to receive their final distributions and be redeemed by the Issuer on the Payment Date in September 2039 (the "Scheduled Class E Shares Redemption Date") unless redeemed prior thereto. The average life of the Notes is expected to be substantially shorter than the number of years from issuance until the related Stated Maturity for each Class of Notes. The duration of the Class E Shares is expected to be substantially shorter than the number of years from issuance to the Scheduled Class E Shares Redemption Date. See "Description of the Notes and the Class E Shares—Principal" and "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class D Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in October 2004 in an amount equal to the Class D Notes Amortizing Principal Amount with respect to such Payment Date. Principal generally will not be payable on the Notes (other than the Class D Notes as described above) prior to the end of the Reinvestment Period; *provided, however*, that to the extent funds are available therefor in accordance with the Priority of Payments, (i) the Class A Notes will be subject to mandatory redemption and the CP Notes will be subject to defeasance on any Payment Date out of funds available therefor in accordance with the Priority of Payments at par, (a) if either the Class A/B Coverage Tests or the Class C Coverage Tests are not satisfied on the related Determination Date or (b) if the Class C Overcollateralization Ratio is less than 75% on the related Determination Date, (ii) the Class B Notes will be subject to mandatory redemption on any Payment Date after the Class A Notes have been paid in full and the CP Notes have been defeased in full out of funds available therefor in accordance with the Priority of Payments at par, (a) if, either the Class A/B Coverage Tests or the Class C Coverage Tests are not satisfied on the related Determination Date or (b) if the Class C Overcollateralization Ratio is less than 75% on the related Determination Date and (iii) the Class C Notes will be subject to mandatory redemption on any Payment

Date after the Class A Notes and the Class B Notes have been paid in full and the CP Notes have been defeased in full out of funds available therefor in accordance with the Priority of Payments at par if the Class C Coverage Tests are not satisfied on the related Determination Date. The Class D Notes and the Class E Shares will not be subject to mandatory redemption as a result of the failure of any Coverage Test. See "Description of the Notes and the Class E Shares—Principal," "—Mandatory Redemption" and "Description of the Notes and the Class E Shares—Priority of Payments."

Principal generally will be payable on the Notes and the CP Notes by the Issuers in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in October 2009 or on the Payment Date in September 2009 to the extent of any Principal Proceeds which were not reinvested in Collateral Assets before the end of the Reinvestment Period. After the Reinvestment Period, on any Payment Date on which the current long term ratings on the Notes are equal to or higher than the original long term ratings and the Coverage Tests are satisfied, principal will be paid *pro rata* to the Holders of the Class A-1LT-a Notes, the Class A-1LT-b Notes, the CP Notes and the Class A-2 Notes until each such Class is paid or defeased in full only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to a specified target (subject to a minimum overcollateralization amount). After achieving and maintaining such target level, the payment of principal will shift to the Holders of the Class B Notes which will receive principal only in an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to a specified target (subject to a minimum overcollateralization amount). After achieving and maintaining such target level, the payment of principal will shift to the Holders of the Class C Notes which will receive principal until the Class C Notes are paid in full. After the payments described in the preceding sentence, Proceeds, including any Principal Proceeds, will be applied to the other items specified in the Priority of Payments, including distributions to the Class D Notes and the Class E Shares.

Principal on the Class A-1LT-a Notes, the Class A-1LT-b Notes, if any, the CP Notes and the Class A-2 Notes will be paid by the Issuer either *pro rata* or *first* to the Class A-1LT-a Notes, the Class A-1LT-b Notes, if any, and the CP Notes and *second* to the Class A-2 Notes depending on the circumstances as more fully described in the Priority of Payments.

Payments of principal on the Class B Notes on any Payment Date are subordinate to payments of principal or interest due on the Class A Notes and CP Notes on such Payment Date. Payments of principal on the Class C Notes on any Payment Date are subordinate to payments of principal or interest due on the CP Notes, Class A Notes and Class B Notes on such Payment Date. Payments of principal on the Class D Notes on any Payment Date generally are subordinate to payments of principal or interest due on the CP Notes, Class A Notes, Class B Notes and the Class C Notes on such Payment Date. Distributions to the Holders of the Class E Shares on any Payment Date are subordinate to payments on the Notes due on such Payment Date. See "Description of the Notes and the Class E Shares—Priority of Payments."

Auction ..... Sixty days prior to the Payment Date occurring in September of each year commencing on the September 2014 Payment Date (each such date, an "Auction Payment Date"), the Collateral Manager shall take steps to conduct an auction (the "Auction") of the Collateral Assets in accordance with procedures specified in the Indenture. If the Collateral Manager receives one or more bids from Eligible Bidders not later than ten Business Days prior to the Auction Payment Date equal to or greater than the Minimum Bid Amount, it will sell the Collateral Assets for settlement on or before the fifth Business Day prior to such Auction Payment Date and the Notes and the Class E Shares will be redeemed in whole and the CP Notes will be defeased in whole on the Auction Payment Date.

If any single bid, or the aggregate amount of multiple bids, does not equal or exceed the aggregate Minimum Bid Amount or if there is a failure at settlement, then the Collateral Assets will not be sold and no redemption of Notes and Class E Shares and no defeasance of the CP Notes on the related Auction Payment Date will be made.

Optional Redemption and Tax Redemption ..... The Notes may be redeemed and the CP Notes defeased by the Issuers from Liquidation Proceeds in whole but not in part on any Payment Date on or after the Payment Date occurring in October 2009, at the written direction of, or with the written consent of the Holders of a Majority of the Class E Shares (an "Optional Redemption"). If the Holders of the Class E Shares so elect to cause an Optional Redemption, the Class E Shares will also be redeemed in full in accordance with the Priority of Payments for Exception Payment Dates.

The Notes may be redeemed and the CP Notes defeased from Liquidation Proceeds in whole but not in part on any Payment Date on or after the Payment Date occurring in October 2009 upon the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of 66-2/3% of the Class E Shares or Holders of a Majority of any Class of Notes which, as a result of the occurrence of such Tax Event, have not received 100% of the aggregate amount of principal and interest due and payable on such Class (such redemption, a "Tax Redemption"). If the Holders of the Class E Shares or the Holders of the Notes so elect to cause a Tax Redemption, the Class E Shares will also be redeemed in full in accordance with the Priority of Payments for Exception Payment Dates.

In the event of an Optional Redemption or a Tax Redemption as described above, the Notes and the Class E Shares will be redeemed and the CP Notes will be defeased at their Optional Redemption Prices and Tax Redemption Prices, respectively, as described herein. See "Description of the Notes and the Class E Shares—Optional Redemption and Tax Redemption" and "—Priority of Payments."

No Securities or CP Notes shall be redeemed or defeased pursuant to an Optional Redemption or Tax Redemption and a final distribution to the Class E Shares shall not be made unless the Collateral Manager furnishes certain assurances that the Total Redemption Amount will be

available for distribution on the related Redemption Date. See "Description of the Notes and the Class E Shares—Optional Redemption and Tax Redemption."

Mandatory Redemption..... On any Payment Date on which any Class A/B Coverage Test or any Class C Coverage Test is not satisfied as of the preceding Determination Date, the Notes (other than the Class D Notes) will be subject to mandatory redemption, and the CP Notes will be subject to defeasance in accordance with the Priority of Payments, until the applicable Coverage Tests are satisfied or the Notes and the CP Notes subject to redemption or defeasance have been paid in full (a "Mandatory Redemption"). If the Proceeds available are insufficient to cause any Coverage Test to be satisfied, the Collateral Manager is not permitted to sell Collateral Assets to generate additional Proceeds to be applied to redeem or defease the Notes and the CP Notes, as applicable, and satisfy such Coverage Tests except to the extent such Collateral Assets may, at the discretion of the Collateral Manager, be otherwise sold as Credit Improved Obligations, Credit Risk Obligations, Defaulted Obligations or Discretionary Sales as described herein. The Class A Notes and the Class B Notes are also subject to mandatory redemption and the CP Notes are subject to defeasance in accordance with the Priority of Payments on any Payment Date if the Class C Overcollateralization Ratio is less than 75% on the related Determination Date. The Class D Notes and the Class E Shares are not subject to mandatory redemption as a result of the failure of any Coverage Test.

See "Description of the Notes and the Class E Shares—Mandatory Redemption" and "—Priority of Payments."

Put Agreement ..... On or prior to the Closing Date, the Issuer will enter into a put agreement (together with the related schedule and confirmation, the "Put Agreement") with Société Générale, acting through its New York Branch (the "Put Counterparty"). Under the Put Agreement, subject to certain conditions to exercise, if the Issuers give the Put Counterparty notice in accordance with the Put Agreement of the occurrence of certain events (including, among other things, that it is unable to place new CP Notes having a maturity not exceeding nine months and a discount less than or equal to LIBOR *plus* 0.16% per annum or interest rate less than or equal to LIBOR *plus* 0.11% per annum of an applicable maturity (the "Maximum Put Option Strike Rate") in an amount at least equal to the face amount of maturing CP Notes less any amounts in the CP Interest Reserve Account and the CP Principal Reserve Account), the Put Counterparty will on or before the third Business Day after such exercise notice was delivered, but in any event, not later than the third Business Day after such CP Notes initially mature, provide the Issuer with sufficient funds to enable the Issuers to repay maturing CP Notes in accordance with the Put Agreement. In exchange for such funds, the Issuer will, at the direction of the Put Counterparty, deliver to the Put Counterparty the Class A-1LT-b Notes in an equivalent amount. See "Security for the Notes—Put Agreement."

CP Interest Reserve Facility ... On or prior to the Closing Date, the Issuer will enter into a Cashflow Swap Agreement with AIG Financial Products Corp. (the "Cashflow Swap Counterparty") which will provide a reserve for the CP Notes (the "CP Interest Reserve Facility"). Under the CP Interest Reserve Facility,

the Cashflow Swap Counterparty will be required to pay the Interim Cashflow Swap Payment to the CP Interest Reserve Account on August 9, 2004, August 23, 2004, September 7, 2004 and September 22, 2004 and thereafter, on or about the fifteenth day prior to each Payment Date (each, an "Interim Payment Date") and on or about each Payment Date (together with each Interim Payment Date, the "Cashflow Swap Payment Dates"). The Interim Cashflow Swap Payments, together with amounts on deposit in the CP Interest Reserve Account and amounts to be deposited to the CP Interest Reserve Account on each Payment Date by the Issuer in accordance with the Priority of Payments, will ensure that the amount on deposit in the CP Interest Reserve Account on each Interim Payment Date is at least equal to the CP Interest Reserve Required Amount. See "Security for the Notes—Hedge Agreements—Cashflow Swap Agreements."

Non-Call Period..... The period from the Closing Date to and including the Payment Date in September 2009 (the "Non-Call Period").

Reinvestment Period..... The period from the Closing Date and ending on the first to occur of: (i) the end of the Due Period related to the Payment Date in September 2009, (ii) the Payment Date immediately following the date on which the Collateral Manager notifies the Trustee in writing that it has determined that investments in additional Collateral Assets within the foreseeable future would either be impractical or not beneficial, (iii) 120 days after resignation or removal of the Collateral Manager if no successor Collateral Manager has been appointed during that period, and (iv) the occurrence of an Event of Default resulting in acceleration of the Notes.

Reinvestment in Collateral Assets and Reinvestment Criteria ..... Principal Proceeds in respect of the Collateral Assets will be used during the Reinvestment Period to purchase Collateral Assets or Eligible Investments meeting the criteria specified herein, so long as the Reinvestment Criteria are satisfied, and until so used shall be deposited in the Collection Account for the duration of the Reinvestment Period unless required to be applied to the payment of Notes or CP Notes to satisfy the Coverage Tests or otherwise applied pursuant to the Priority of Payments.

Sale Proceeds from the disposition of Credit Risk Obligations and Unscheduled Principal Payments received after the Reinvestment Period may be reinvested in substitute Collateral Assets, so long as the Reinvestment Criteria are satisfied and such amounts are reinvested no later than the last day of the Due Period following the Due Period in which such amounts were received.

The Reinvestment Criteria consist of the Eligibility Criteria, the Collateral Profile Tests, the Collateral Quality Tests and the Coverage Tests. The Reinvestment Criteria will be satisfied upon the purchase of a Collateral Asset if (i) the Eligibility Criteria are satisfied and (ii) the Collateral Profile Tests, the Collateral Quality Tests and the Coverage Tests are satisfied, or if not satisfied the extent of compliance is maintained or improved; *provided* that with respect to the reinvestment of Sale Proceeds of Credit

Risk Obligations sold after the Reinvestment Period, the Collateral Quality Tests and the Coverage Tests must be satisfied. See "Security for the Notes—Substitute Collateral Assets and Reinvestment Criteria."

Reports ..... With respect to each Payment Date, beginning in October 2004, a remittance report will be made available to the Collateral Manager, the Issuer, the Note Paying Agents, the CP Issuing and Paying Agent, the CP Note Placement Agents, the Put Counterparty, the Class E Share Paying Agent and the Hedge Counterparties (each, a "Payment Report") which will provide information with respect to payments to be made on the related Payment Date to Holders of the Notes, the CP Notes and the Class E Shares and beginning in November 2004 a note valuation report (each, a "Note Valuation Report") will be made available to the Put Counterparty, the CP Note Placement Agents and the Holders of the Notes and the Class E Shares which will provide information on the Collateral Assets and compliance with the Reinvestment Criteria.

Copies of the Note Valuation Reports and Payment Reports may be obtained at the office of the Note Paying Agent and will be available on the password protected website of the Note Paying Agent initially located at jpmorgan.com. This website does not form a part of this Offering Circular for purposes of the listing of the Notes and the Class E Shares on any stock exchange or any other purpose.

Coverage Tests and Collateral Quality Tests..... The following table identifies certain of the Coverage Tests and the Collateral Quality Tests, and, with respect to each test, where applicable, the value at which such test is satisfied and the expected value on the Closing Date. The Class A/B Coverage Tests, the Class C Coverage Tests and the Collateral Quality Tests will be applied to determine whether the Issuer is permitted to purchase substitute Collateral Assets and to determine application of funds under the Priority of Payments.

Test	Value at Which Test Is Satisfied	Expected Value on Closing Date
Coverage:		
Class A/B Overcollateralization Test	equal to or greater than 103.0%	104.0%
Class A/B Interest Coverage Test[1]	equal to or greater than 108.0%	119.4%[2]
Class C Overcollateralization Test	equal to or greater than 100.0%	102.2%
Class C Interest Coverage Test[1]	equal to or greater than 105.0%	115.8%[2]
Collateral Quality:		
Moody's Diversity Test	greater than or equal to 20	24
Moody's Maximum Rating Distribution Test	maximum of 50	31
Maximum Weighted Average Life Test	initially less than or equal to 5.5 years and declining as stated herein	4.5
Moody's Minimum Weighted Average Recovery Rate Test	equal to or greater than 57.0%	65.2%
Weighted Average Spread Test	equal to or greater than 0.85%	0.95%
Weighted Average Coupon Test	equal to or greater than 6.10%	6.24%
S&P Minimum Average Recovery Rate Test	equal to or greater than 60.0%	68.4%

[1] The value at which each of the Class A/B Interest Coverage Test and the Class C Interest Coverage Test is satisfied on the first Determination Date with respect to the first Payment Date is 101% and 100%, respectively.

[2] *Pro forma*, assuming 30 days of interest on fully invested proceeds of the offering of the Notes, in accordance with the Collateral Assets Assumptions described herein. See "Yield Considerations."

See "Security for the Notes—The Coverage Tests" and "—The Collateral Quality Tests" and "Description of the Notes and the Class E Shares—Priority of Payments."

Certain Adjusted Overcollateralization Ratios ... If the Class A Adjusted Overcollateralization Ratio is at least 107.6%, Principal Proceeds may be distributed to the Class B Notes and the Class C Notes in accordance with the Priority of Payments, subject to the Minimum Class A Adjusted Overcollateralization. The expected value of the Class A Adjusted Overcollateralization Ratio on the Closing Date is 107.0%. If the Class B Adjusted Overcollateralization Ratio is at least 104.3%, Principal Proceeds may be distributed to the Class C Notes in accordance with the Priority of Payments, subject to the Minimum Class B Adjusted Overcollateralization. The expected value of the Class B Adjusted Overcollateralization Ratio on the Closing Date is 104.0%.

The Offering ..... The Notes and the Class E Shares are being offered to non-U.S. Persons in offshore transactions in reliance on Regulation S, and in the United States to persons who are Qualified Institutional Buyers purchasing in reliance on the exemption from registration under Rule 144A or, with respect to Class E Shares only, Accredited Investors purchasing in transactions exempt from registration under the Securities Act. Each purchaser who is a U.S. Person must also be a Qualified

Purchaser. Each Accredited Investor must have a net worth of at least $10 million. See "Description of the Notes and the Class E Shares—Form of the Securities," "Underwriting" and "Notice to Investors."

Additional Issuance..... Additional notes of all existing Classes of Notes, CP Notes (in addition to any outstanding or maturing CP Notes) and additional Class E Shares may be issued and sold during the Reinvestment Period, and if so issued, the Issuer will use the proceeds to purchase additional Collateral Assets and, if applicable, enter into additional Hedge Agreements. The issuance of additional securities is conditioned upon satisfaction of certain conditions in the Indenture including those described under "Description of the Notes and the Class E Shares—The Indenture and the Class E Shares Paying and Transfer Agency Agreement—Indenture—Additional Issuance."

Minimum Denominations..... The Notes will be issued in minimum denominations of $250,000 (in the case of the Rule 144A Notes) and $100,000 (in the case of the Regulation S Notes) and integral multiples of $1 in excess thereof. The Class E Shares will be issued in minimum lots of 250 Class E Shares per investor and integral multiples of one Class E Share in excess thereof.

Form of the Securities..... Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more temporary global notes (each, a "Temporary Regulation S Global Note") which will be exchangeable for a beneficial interest in one or more permanent global notes of the related Class (each, a "Regulation S Global Note") as described herein.

Each Class of Rule 144A Notes will be issued in the form of one or more global notes in fully registered form (the "Rule 144A Global Notes" and, together with the Temporary Regulation S Global Notes and the Regulation S Global Notes, the "Global Notes").

The Class E Shares will be evidenced by one or more certificates in definitive, fully registered form, registered in the name of the owner thereof (each, a "Class E Share Certificate").

Beneficial interests in the Global Notes may not be transferred except in compliance with the transfer restrictions described herein. In addition, no Class E Shares may be transferred unless the transferee provides the Class E Share Transfer Agent with a Class E Shares Purchase and Transfer Letter. See "Description of the Notes and the Class E Shares—Form of the Securities" and "Notice to Investors."

Governing Law..... The Indenture, the Notes and the Class E Shares Paying and Transfer Agency Agreement will be governed by the laws of the State of New York. The rights and privileges of the Class E Shares (as set forth in the Issuer's Memorandum and Articles of Association) will be governed by the laws of the Cayman Islands.

Listing and Trading ..... There is currently no market for the Notes or Class E Shares and there can be no assurance that such a market will develop. See "Risk Factors—Securities—Limited Liquidity and Restrictions on Transfer." Application may be made to admit the Securities on a stock exchange of

the Issuer's choice, if practicable. There can be no assurance that such admission will be sought or granted. See "Listing and General Information."

Ratings ..... It is a condition of the issuance of the Notes that the Class A-1LT-a Notes, the Class A-1LT-b Notes and the Class A-2 Notes each be issued with a rating of "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A3" by Moody's and at least "A-" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Shares be issued with a rating of at least "Ba1" by Moody's as to the ultimate receipt of the Rated Stated Amount. The Rated Stated Amount of the Class E Shares is reduced by all distributions to the Class E Shares. The ratings of the Class A Notes and Class B Notes address the likelihood of the timely payment of principal of and interest thereon. The ratings of the Class C Notes and the Class D Notes address the likelihood of the ultimate payment of principal of and interest thereon. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning Rating Agency. The Class E Shares are not expected to be rated. See "Ratings."

Tax Status ..... See "Income Tax Considerations."

ERISA Considerations ..... See "ERISA Considerations."

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this offering circular, the following factors:

Securities

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Securities. Although the Initial Purchaser has advised the Issuers that it intends to make a market in the Notes, the Initial Purchaser is not obligated to do so, and any such market-making with respect to the Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of such Notes and consequently a purchaser must be prepared to hold the Notes until maturity. Since it is likely that there will never be a secondary market for the Class E Shares, a purchaser must be prepared to hold its Class E Shares until the Scheduled Class E Shares Redemption Date.

In addition, no sale, assignment, participation, pledge or transfer of the Securities may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Securities will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Securities under the Securities Act or any state securities laws or under the laws of any other jurisdiction. The Securities are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Description of the Notes and the Class E Shares—Form of the Securities" and "Notice to Investors." Such restrictions on the transfer of the Notes may further limit their liquidity. Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought or granted.

Limited Recourse Obligations. The Notes will be limited recourse obligations of the Issuers, payable solely from the Collateral pledged by the Issuer to secure the Notes and the CP Notes. The Class E Shares are equity of the Issuer and are not secured by the Collateral Assets or the other collateral securing the Notes and the CP Notes. None of the Collateral Manager, the Initial Purchaser, the Put Counterparty, the CP Issuing and Paying Agent, the Trustee, the Securities Intermediary, the Administrator, the Share Trustee, the Agents, the Hedge Counterparties, any Synthetic Security Counterparties, the CP Note Placement Agents or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Securities. Consequently, Holders of the Notes must rely solely on distributions on the Collateral pledged to secure the Notes and the CP Notes for the payment of principal and interest on the Notes. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency, and following realization of the Collateral pledged to secure the Notes and the CP Notes, the obligations of the Issuers to pay such deficiency shall be extinguished.

Subordination of the Securities. Payments on the Class B Notes are subordinate to payments on the Class A Notes and the CP Notes to the extent provided in the Priority of Payments; payments on the Class C Notes are subordinate to payments on the Class A Notes, the CP Notes and the Class B Notes, to the extent provided in the Priority of Payments; payments on the Class D Notes are generally subordinate to payments on the Class A Notes, the CP Notes, the Class B Notes and the Class C Notes; and payments on the Class E Shares are subordinate to payments on the Notes and the CP Notes to the extent provided in the Priority of Payments. Principal payments on the Class A Notes will be paid *pro rata* or, *first,* to the Class A-1LT-a Notes and then to the Class A-2 Notes on any Payment Date in the order of priority and in the amounts set forth in the Priority of Payments. Payments with respect to the CP Notes and the Class A-1LT-b Notes, if any, will be paid *pari passu* with payments on the Class A-1LT-a Notes. As a result of the Priority of Payments, notwithstanding the subordination of the Notes described herein,

the Class B Notes may be entitled to receive certain payments of principal while the Class A Notes are outstanding, the Class C Notes may be entitled to receive certain payments of principal while the Class A Notes and the Class B Notes are outstanding and the Class D Notes may be entitled to receive certain payments of principal while the Class A Notes, the Class B Notes and the Class C Notes are outstanding. To the extent that any losses are incurred by the Issuer in respect of any Collateral, such losses will be borne first by Holders of the Class E Shares; then, by Holders of the Class D Notes, then, by the Holders of the Class C Notes, then, by Holders of the Class B Notes, then, by Holders of the Class A-2 Notes, and, finally, by the Holders of the Class A-1LT-a Notes, the CP Notes and the Class A-1LT-b Notes, if any.

After the Reinvestment Period, on any Payment Date on which (i) the current long term ratings of the Notes are equal to or higher than the original long term ratings of the Notes by each Rating Agency, (ii) the Coverage Tests are satisfied, and the Notes have not been accelerated due to an Event of Default, principal will be paid to the CP Principal Reserve Account and to the Holders of the Class A Notes, *pro rata*, only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to the specified target of 107.6% (subject to the Minimum Class A Adjusted Overcollateralization). After achieving and maintaining such target and minimum, the payment of remaining Principal Proceeds will shift to the Holders of the Class B Notes until such Holders have been paid an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to the specified target of 104.3% (subject to the Minimum Class B Adjusted Overcollateralization). After achieving and maintaining such target and minimum, the payment of Principal Proceeds will shift to the Class C Notes in accordance with the Priority of Payments. The foregoing "shifting principal" method to pay principal permits Holders of the Class B Notes to receive distributions of Principal Proceeds while the Class A Notes and the CP Notes remain outstanding and Holders of Class C Notes to receive distributions of Principal Proceeds while the CP Notes, the Class A Notes and the Class B Notes are outstanding, to the extent funds are available in accordance with the Priority of Payments. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Securities or to the Collateral Manager will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Securities.

Equity Status of the Class E Shares. The Class E Shares are equity in the Issuer and are not secured by the Collateral Assets or the other Collateral securing the Notes and the CP Notes. As such, the Holders of the Class E Shares will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Holders of the Notes and the CP Notes, if any, the Put Counterparty and the Hedge Counterparties. No person or entity other than the Issuer will be required to make any distributions on the Class E Shares. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments, the Issuer does not expect to have any creditors. Any amounts paid by the Class E Share Paying Agent as distributions on the Class E Shares in accordance with the Priority of Payments will be payable only to the extent of the Issuer's distributable profits or share premium (determined in accordance with Cayman Islands law). The funds available to be paid to the Class E Share Paying Agent will depend on the weighted average of the Note Interest Rates. In addition, such distributions will be payable only to the extent that the Issuer is solvent on the applicable Payment Date and the Issuer will not be insolvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they fall due. For purposes of calculation of the Internal Rate of Return to the Holders of the Class E Shares, amounts distributed to the Class E Share Paying Agent for deposit into the Class E Share Payment Account will be deemed to have been distributed to the Holders of the Class E Shares on the date so distributed regardless of any Cayman Islands laws restricting distribution to the Holders. The ratings assigned by Moody's to the Class E Shares are limited to the ultimate payment of the Rated Stated Amount. Since the Rated Stated Amount of the Class E Shares will be reduced by all distributions to the Class E Shares, the outstanding Rated Stated Amount is expected to be lower than the actual outstanding Stated Amount of the Class E Shares after the first Payment Date. The Rated Stated Amount of such Class E Shares is likely to be paid in full sooner than the actual Stated Amount, and once the Rated Stated Amount is paid in full, the ratings assigned to such Class E Shares will be withdrawn.

An action may result in a downgrading of the Class E Shares and still satisfy the rating agency conditions. As described herein, the Issuer or Collateral Manager may be required to obtain confirmation that the ratings assigned by Moody's to the Class E Shares will not be withdrawn or reduced by two or more subcategories (either from their original ratings as of the Closing Date or from their then current levels, as specified) prior to taking certain actions and making certain investments. Consequently, the Issuer or Collateral Manager could take certain actions or make certain investments that would cause the Class E Shares to be downgraded by one subcategory and the rating agency conditions would still be satisfied. Furthermore, after the Rated Stated Amount of the Class E Shares is paid in full, the rating on such Class E Shares will be withdrawn and the Rating Agency Condition will no longer have to be satisfied with respect to such Class E Shares even though the Securities may still be entitled to additional distributions.

Holders of the Controlling Class may not be able to effect a liquidation of the Collateral in an Event of Default; Holders of Subordinated Notes may be Adversely Affected by Actions of the Controlling Class. If an Event of Default occurs and is continuing a Majority of the Controlling Class will be entitled to determine the remedies to be exercised under the Indenture; however, the Majority of the Controlling Class will not be able to direct a sale or liquidation of the Collateral unless, among other things, the Trustee determines that the anticipated proceeds of such sale or liquidation (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to pay in full the Total Redemption Amount. The Total Redemption Amount includes a distribution to the Holders of the Class E Shares in the amount of the Rated Stated Amount. There can be no assurance that proceeds of a sale and liquidation, together with all other available funds, will be sufficient to pay in full the Total Redemption Amount. In addition, even if the anticipated proceeds of such sale or liquidation would not be sufficient to pay in full the Total Redemption Amount, the Holders of a SuperMajority of the Controlling Class, any Hedge Counterparty (unless any such Hedge Counterparty will be paid in full the amounts due to them other than any Defaulted Hedge Termination Payments at the time of distribution of the proceeds of any sale or liquidation of the Collateral) and the Put Counterparty may direct the sale and liquidation of the Collateral.

Remedies pursued by the Holders of the Controlling Class could be adverse to the interests of the Holders of the Subordinated Notes. After the Class A Notes and the CP Notes have been redeemed, defeased or otherwise paid in full, the Holders of the Class B Notes, after the Class B Notes have been redeemed or otherwise paid in full, the Class C Notes, and after the Class C Notes have been redeemed or otherwise paid in full, the Class D Notes will be entitled to determine the remedies to be exercised under the Indenture (as described above) if an Event of Default occurs. See "Description of the Notes and the Class E Shares—The Indenture and the Class E Shares Paying and Transfer Agency Agreement—Indenture—Events of Default."

Leveraged Investment. The Class E Shares and the Subordinated Notes represent a leveraged investment in the underlying Collateral Assets. The use of leverage generally magnifies an investor's opportunities for gain and risk of loss. Therefore, changes in the market value of the Class E Shares and the Subordinated Notes can be expected to be greater than changes in the market value of the underlying assets included in the Collateral Assets, which are also subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.

Auction. There can be no assurance that an Auction of the Collateral Assets on any Auction Payment Date will be successful. The success of an Auction will shorten the average lives of the Securities and the duration of the Securities and may reduce the yield to maturity of the Notes.

Optional Redemption and Tax Redemption of Securities. Subject to the satisfaction of certain conditions, the Securities and the CP Notes may be optionally redeemed or defeased in whole and not in part (i) on any Payment Date after the Non-Call Period (i.e. beginning October 2009) at the written direction of, or with the written consent of, Holders of a Majority of the Class E Shares or (ii) on any Payment Date during or after the Non-Call Period upon the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of 66-2/3% of the Class E Shares or the Holders of a

Majority of any Class of Notes, if as a result of an occurrence of a Tax Event, such Class of Notes has not received 100% of the aggregate amount of principal and interest due and payable on such Class of Notes. If an Optional Redemption or Tax Redemption occurs, the Class E Shares will be redeemed simultaneously.

There can be no assurance that after payment of the redemption prices for the Securities and the CP Notes and all other amounts payable in accordance with the Priority of Payments, any additional Proceeds will remain to distribute to the Holders of the Class E Shares upon redemption. See "Description of the Notes and the Class E Shares—Optional Redemption and Tax Redemption." An Optional Redemption or Tax Redemption of the Securities and the CP Notes could require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Collateral Assets sold. In addition, the redemption procedures in the Indenture may require the Collateral Manager to aggregate securities to be sold together in one block transaction, thereby possibly resulting in a lower aggregate realized value for the Collateral Assets sold. In any event, there can be no assurance that the market value of the Collateral Assets will be sufficient for the Holders of the Class E Shares to direct an Optional Redemption or, in the case of a Tax Redemption, for the Holders of the affected Class of Securities or Class E Shares to direct a Tax Redemption. A decrease in the market value of the Collateral Assets would adversely affect the proceeds that could be obtained upon a sale of the Collateral Assets; consequently, the conditions precedent to the exercise of an Optional Redemption or a Tax Redemption may not be met. The interests of the Holders of the Class E Shares in determining whether to elect to effect an Optional Redemption and the interests of the Holders of the affected Class of Securities and the Class E Shares with respect to a Tax Redemption may be different from the interests of the Holders of the other Classes of Securities in such respect. The Holders of the Securities also may not be able to invest the proceeds of the redemption of the Securities in one or more investments providing a return equal to or greater than the Holders of the Securities expected to obtain from their investment in the Securities. An Optional Redemption or a Tax Redemption will shorten the average lives of the Securities and the duration of the Securities and may reduce the yield to maturity of the Notes.

Mandatory Redemption of the Securities. If either Class A/B Coverage Test is not met on the Determination Date immediately preceding any Payment Date, Proceeds that otherwise might have been paid as interest to or distributed to the Holders of the Subordinated Notes and Class E Shares will be used to redeem the Notes (other than the Class D Notes) and to defease the CP Notes in the order of priority and in such amounts as are set forth in the Priority of Payments, in the case of the Class A/B Overcollateralization Test, to the extent necessary to restore the Class A/B Overcollateralization Test to the minimum required level or, in the case of the Class A/B Interest Coverage Test, until such Notes and CP Notes are paid or defeased in full on such Payment Date. This could result in an elimination, deferral or reduction in the amounts available to make payments and distributions to Holders of the Subordinated Notes and Class E Shares. See "Security for the Notes—The Coverage Tests." Any such redemptions may shorten the average life of the Notes and may adversely affect the yield on the Subordinated Notes and Class E Shares. If (a) either of the Class C Coverage Tests is not met or (b) the Class C Overcollateralization Ratio is less than 75%, in each case, on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class C Notes, the Class D Notes and the Class E Shares may be used to redeem the Class A Notes and the Class B Notes and to defease the CP Notes in the order of priority and in such amounts as are set forth in the Priority of Payments. This could result in an elimination, deferral or reduction in the amounts available to make payments to the Holders of the Class C Notes and the Class D Notes and distributions to Holders of the Class E Shares. See "Security for the Notes—The Coverage Tests." Any such redemptions will shorten the average life, may lower the yield to maturity of the Class C Notes and the Class D Notes and may adversely affect the yield on the Class E Shares.

Collateral Accumulation. In anticipation of the issuance of the Notes, an affiliate of Goldman, Sachs & Co. has agreed to "warehouse" approximately $1,500,000,000 aggregate principal amount of Collateral Assets selected by the Collateral Manager for resale to the Issuer pursuant to the terms of a forward purchase agreement. Of such amount, the Collateral Manager expects that a portion will be

purchased from affiliates of Goldman, Sachs & Co. and a portion will be purchased from third parties. Pursuant to the terms of such forward purchase agreement, the Issuer will be obligated to purchase the "warehoused" assets *provided* such Collateral Assets satisfy the Eligibility Criteria on the Closing Date for a formula purchase price designed to reflect the yields or spreads at which the Collateral Assets were purchased (using the prepayment speed and other assumptions used to set the initial price of each individual asset), as adjusted for any hedging gain or loss and any loss or gain on any Collateral Assets sold to a party other than the Issuer during the warehousing period. Consequently, the market values of "warehoused" Collateral Assets at the Closing Date may be less than or greater than the formula purchase price paid by the Issuer. In addition, if a Collateral Asset becomes ineligible during the warehousing period and is not purchased by the Issuer on the Closing Date, or if a Collateral Asset is otherwise sold at the direction of the Collateral Manager or Goldman, Sachs & Co. (which sale may only occur with the consent of the Goldman, Sachs & Co.'s affiliate), the Issuer will bear the loss or receive the gain on the sale of such Collateral Asset to a third party.

Reinvestment Period Provisions. During the Reinvestment Period, so long as certain requirements are met, the Collateral Manager will have discretion to dispose of certain Collateral Assets and to reinvest the Sale Proceeds in substitute Collateral Assets in compliance with the Reinvestment Criteria, except as otherwise described herein. Furthermore, during the Reinvestment Period, to the extent that any Collateral Assets prepay, mature or amortize, the Collateral Manager will seek, subject to the Reinvestment Criteria, to invest the proceeds thereof in additional Collateral Assets. After the Reinvestment Period, the Collateral Manager may reinvest Unscheduled Principal Payments and Sale Proceeds from Credit Risk Obligations in Collateral Assets in compliance with the Reinvestment Criteria. There may be substantial lags between the receipt of principal of the Collateral Assets and the reinvestment thereof, during which the proceeds will be invested in lower yielding short term high quality investments. In the event of a decline, generally, in interest rates or in asset yields, the Collateral Manager may not be able to reinvest principal received at rates at least equal to the current yields on such assets or at the reinvestment rates presented herein. Such substitute Collateral Assets may bear interest at a lower rate or may have a lower rate of return than the Collateral Assets that were replaced. Any decrease in the yield on the Collateral Assets may have the effect of reducing the amounts available to make distributions on the Notes. There can be no assurance that in the event Collateral Assets are sold, called, prepay, amortize or mature, yields on Collateral Assets that are eligible for purchase will be at the same levels as those replaced, there can be no assurance that the characteristics of any additional Collateral Assets purchased will be the same as those replaced and there can be no assurance as to the timing of the purchase of any additional Collateral Assets.

Early Termination of the Reinvestment Period and Early Payments of Principal. Although the Reinvestment Period is expected to terminate at the end of the Due Period relating to the Payment Date occurring in September 2009, the Reinvestment Period will terminate prior to such date if (i) an Event of Default resulting in acceleration of the Notes occurs, (ii) the Collateral Manager notifies the Trustee in writing that, in light of the composition of the Collateral Assets, general market conditions and other factors, it has determined that investments in additional Collateral Assets within the foreseeable future would either be impractical or not beneficial, or (iii) 120 days after resignation or removal of the Collateral Manager if no successor Collateral Manager has been appointed during that period. Further, Holders of Notes (other than the Class D Notes) may receive principal payments on any Payment Date during the Reinvestment Period out of funds available therefor in accordance with the Priority of Payments, (i) to the extent necessary to satisfy the Coverage Tests and (ii) with regard to the Class A Notes and the Class B Notes, if the Class C Overcollateralization Ratio is less than 75% on the related Determination Date. If the Reinvestment Period terminates early, or if principal payments are made during the Reinvestment Period, such early termination or early payments may shorten the expected average lives of the Notes described under "Yield Considerations."

Recharacterization of Interest Proceeds. The Collateral Manager may direct the Trustee to, at any time during the Reinvestment Period, sell Credit Improved Obligations, Credit Risk Obligations, or Defaulted Obligations as well as engage in Discretionary Sales of Collateral Assets which are not Credit Improved Obligations, Credit Risk Obligations, or Defaulted Obligations subject to certain percentage

limits, as described herein. After the Reinvestment Period, the Issuer may sell only Credit Risk Obligations and Defaulted Obligations. Sale Proceeds from all sales during the Reinvestment Period and from sales of Credit Risk Obligations and from Unscheduled Principal Payments after the Reinvestment Period may be reinvested in substitute Collateral Assets in compliance with the Reinvestment Criteria. The Issuer is not required to use Sale Proceeds to purchase substitute Collateral Assets which have a par value equal to or greater than the par value of the specific Collateral Asset sold. However, the Issuer is obligated to maintain par on an aggregate basis by adding to Principal Proceeds on each Determination Date from other Proceeds an amount equal to the excess, if any, of (a) the par amount of Collateral Assets sold, principal payments and any recoveries on Defaulted Obligations in such Due Period *minus* the discount to par realized from the sale of Credit Risk Obligations and Defaulted Obligations and the discount to par realized on any recoveries on Defaulted Obligations in such Due Period over (b) the Principal Balance of Collateral Assets purchased in such Due Period and Eligible Investments acquired with Principal Proceeds in such Due Period which are outstanding on the related Determination Date for such Due Period (*provided, however*, that the sum of (i) the excess of the aggregate of all prior Payment Dates of the amounts described in sub-clause (b) over the aggregate for all prior Payment Dates of the amounts described in sub-clause (a) and (ii) the excess of the Aggregate Principal Amount on the Closing Date over $1,500,000,000 will be applied to reduce the excess of amounts described in sub-clause (a) over amounts described in sub-clause (b) to, but not less than, zero). Thus, in the event the Issuer is unable to purchase substitute Collateral Assets in an amount sufficient to replace the par amount of the sold Collateral Assets (or with respect to Credit Risk Obligations and Defaulted Obligations, the Sale Proceeds) on a cumulative basis, it will be required to treat as Principal Proceeds a portion of Proceeds that would otherwise constitute interest collections on the Collateral Assets. As long as the Class A Notes are outstanding, the recharacterization of any such amounts as Principal Proceeds to replace par will reduce the amount of Proceeds available for distribution to the Holders of the Class D Notes and Class E Shares.

Average Lives, Duration and Prepayment Considerations. The average lives of the Notes and the duration of the Class E Shares are expected to be shorter than the number of years until their Stated Maturity or the Scheduled Class E Shares Redemption Date, respectively. See "Yield Considerations."

The average lives of the Notes and the duration of the Class E Shares will be affected by the financial condition of the obligors on or issuers of the Collateral Assets and the characteristics of the Collateral Assets, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prepayment speed, the occurrence of any early amortization events, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries in respect of any Defaulted Obligations, the frequency of tender or exchange offers for the Collateral Assets and the tenor of any sales or substitutions of Collateral Assets.

Some or all of the loans underlying the RMBS or Asset-Backed Securities may be prepaid at any time and the commercial mortgage loans underlying the CMBS may also be subject to prepayment (although certain of such commercial mortgage loans may have "lockout" periods, defeasance provisions, prepayment penalties or other disincentives to prepayment). The REIT Debt Securities may provide for redemption at the option of the issuer that could result in the early repayment thereof. Defaults on and liquidations of the loans underlying the RMBS, Asset-Backed Securities or the CMBS may also lead to early repayment thereof. Prepayments on loans are affected by a number of factors. If prevailing rates for similar loans fall below the interest rates on such loans, prepayment rates would generally be expected to increase. Conversely, if prevailing rates for similar loans rise above the interest rates on such loans, prepayment rates would generally be expected to decrease. The existence and frequency of such prepayments, optional redemptions, defaults and liquidations will affect the average lives of, and credit support for, the Notes and the duration of the Subordinated Notes and Class E Shares. See "Yield Considerations" and "Security for the Notes."

Projections, Forecasts and Estimates. Estimates of the weighted average lives or duration of, and returns on, the Notes and Class E Shares included herein or in any supplement to this offering circular, together with any other projections, forecasts and estimates provided to prospective purchasers

of the Notes and Class E Shares, are forward looking statements. Such statements are necessarily speculative in nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecasts or estimates will be realized or that the forward looking statements will materialize, and actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the Collateral Assets, differences in the actual allocation of the Collateral Assets among asset categories from those assumed, mismatches between the timing of accrual and receipt of Proceeds from the Collateral Assets and the effectiveness of the Hedge Agreements, among others.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Initial Purchaser or any of their respective affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Dependence on Key Personnel. The success of the Issuer will be dependent on the financial and managerial expertise of the investment professionals of the Collateral Manager. In the event that one or more of the investment professionals of the Collateral Manager were to leave the Collateral Manager, the Collateral Manager would have to re-assign responsibilities internally and/or hire one or more replacement employees and such a loss could have a material adverse effect on the performance of the Issuer. In addition, individuals not currently associated with the Collateral Manager may become associated with the Collateral Manager and the performance of the Issuer may depend on the financial and managerial experience of such individuals. See "The Collateral Manager."

Collateral Assets

Nature of Collateral. The Collateral is subject to credit, liquidity, interest rate and currency exchange risks. In addition, Sale Proceeds and Proceeds of Collateral Assets that prepay, mature, or amortize will be reinvested after the Closing Date, and, accordingly, the financial performance of the Issuer may be affected by the price and availability of Collateral to be purchased. The amount and nature of collateral securing the Notes has been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Collateral Assets. See "Ratings." If any deficiencies exceed such assumed levels, however, payment of the Securities could be adversely affected. To the extent that a default occurs with respect to any Collateral Asset securing the Notes and the Issuer (upon the advice of the Collateral Manager) sells or otherwise disposes of such Collateral Asset, it is not likely that the proceeds of such sale or other disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Collateral Asset.

The market value of the Collateral Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Collateral Assets (or, with respect to Synthetic Securities, of the counterparties of such Synthetic Securities and of the obligors on or issuers of the Reference Obligations), the credit quality of the underlying pool of assets in any Collateral Asset that is an Asset-Backed Security or Mortgage-Backed Security, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. None of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the Trustee or the Securities Intermediary has any liability or obligation to the Holders of Securities as to the amount or value of, or decrease in the value of, the Collateral Assets from time to time.

In the event that a Collateral Asset becomes a Credit Risk Obligation or a Defaulted Obligation, the Collateral Manager may either sell or retain the affected asset. There can be no assurance as to the timing of the Collateral Manager's sale of the affected asset, or if there will be any market for such asset or as to the rates of recovery on such affected asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Subordinated Notes and Class E Shares.

Although the Issuer is permitted to invest in Collateral Assets of certain foreign obligors and Synthetic Securities, the Issuer may find that, as a practical matter, these investment opportunities or investments in obligations of issuers located in certain countries are not available to it for a variety of reasons such as the limitations imposed by the Eligibility Criteria and Collateral Profile Tests and requirements with respect to Synthetic Securities that the Issuer receive confirmation of the ratings of the Notes from each of the Rating Agencies except for Form-Approved Synthetic Securities.

For the foregoing reasons and otherwise, at any time there may be a limited universe of investments that would satisfy the Reinvestment Criteria given the other investments in the Issuer's portfolio. As a result, the Collateral Manager may at times find it difficult to purchase suitable investments for the Issuer. See "Security for the Notes—Purchase of Collateral Assets" and "—Eligibility Criteria and Collateral Profile Tests."

The ability of the Issuer to sell Collateral Assets prior to maturity is subject to certain restrictions under the Indenture.

PROSPECTIVE PURCHASERS OF THE SECURITIES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELY LEVEL OF DEFAULTS ON THE COLLATERAL ASSETS, AS WELL AS THE LIKELY LEVEL AND TIMING OF RECOVERIES ON THE COLLATERAL ASSETS.

Commercial Mortgage-Backed Securities. The Collateral Assets may include Commercial Mortgage-Backed Securities ("CMBS"), including without limitation CMBS Conduit Securities, CMBS Large Loan Securities, CMBS Franchise Securities, CMBS Credit Tenant Lease Securities and CMBS RE-REMIC Securities.

Holders of CMBS bear various risks, including credit, market, interest rate, structural and legal risks. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, self-storage, nursing homes and senior living centers. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of commercial mortgage-backed securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of CMBS servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation. The failure of the performance of such CMBS servicers or special servicers could result in cash flow delays and losses on the related issue of CMBS.

The CMBS included in the Collateral Assets at any time may pay fixed rates of interest. Fixed rate CMBS, like all fixed-income securities, generally decline in value as interest rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, this inverse relationship may not be as marked in the case of CMBS due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made. However, prepayments on the underlying commercial mortgage loans may still result in a reduction of the yield on the related issue of CMBS.

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans underlying a CMBS issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS could experience delays in cash flow and losses.

In addition, structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the Issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS.

Residential Mortgage-Backed Securities. The Collateral Assets may include Residential Mortgage-Backed Securities ("RMBS"), including without limitation RMBS Agency Securities, RMBS Residential A Mortgage Securities, RMBS Residential B/C Mortgage Securities, RMBS Manufactured Housing Loan Securities and RMBS Home Equity Loan Securities (each as defined herein).

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Yield Considerations." Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by Agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS.

Structural and Legal Risks of CMBS and RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

In addition, structural and legal risks of CMBS and RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS or RMBS.

It is not expected that CMBS or RMBS (other than the RMBS Agency Securities) will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on CMBS and RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

It is expected that some of the CMBS and RMBS owned by the Issuer may be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of CMBS and certain RMBS, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

CDO Securities. The Collateral Assets may include CDO Securities which include CDO Structured Product Securities, CDO RMBS Securities, CDO Commercial Real Estate Securities or CDO Corporate Securities. CDO Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("CDO Collateral") or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished. Many subordinate classes of CDO Securities provide that a deferral of interest thereon does not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of non-payment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such CDO Securities.

CDO Securities are subject to credit, liquidity and interest rate risks. The assets backing CDO Securities may consist of high yield debt securities, loans, structured finance securities and other debt instruments. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The below investment grade ratings of high yield securities reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative. Recently, there has been a significant increase in the default rates reported on high yield corporate debt securities and loans. An increase in

the default rates of high yield corporate debt securities or loans could increase the likelihood that payments may not be made to holders of CDO Securities which are secured by high yield corporate debt securities and loans.

Issuers of CDO Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

In purchasing participations, an issuer of CDO Securities will usually have a contractual relationship only with the selling institution, and not the borrower. The issuer generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The issuer may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States of America and the states thereof, the issuer may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the issuer may be subject to the credit risk of the selling institution as well as of the borrower.

CDO Securities are subject to interest rate risk. The CDO Collateral of an issuer of CDO Securities may bear interest at a fixed (floating) rate while the CDO Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch between the CDO Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Securities.

REIT Debt Securities. A portion of the Collateral Assets may consist of REIT Industrial Securities, REIT Multi-family Securities, REIT Office Securities, REIT Retail Securities and REIT Other Securities. REIT Debt Securities are generally unsecured and investments in REIT Debt Securities involve special risks. In particular, real estate investment trusts (as defined in Section 856 of the Code) generally are permitted to invest solely in real estate or real estate-related assets and are subject to the inherent risks associated with such investments. Consequently, the financial condition of any REIT Debt Security may be affected by the risks described above with respect to commercial mortgage loans and commercial mortgage-backed securities and similar risks, including (i) risks of delinquency and foreclosure, and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks that may be presented by the type and use of a particular commercial property and (iv) the difficulty of converting certain property to an alternative use.

The real estate investment trusts issuing the REIT Debt Securities invest in one or more of the retail, office, industrial, self storage, residential real estate and other sectors. Each such property type is subject to particular risks. For example, retail properties are subject to risks of competition for tenants, events affecting anchor or other major tenants, tenant concentration, property condition and competition of their tenants with other local retailers, discount stores, factory outlet centers, video shopping networks, catalogue retailers, direct mail and telemarketing and Internet retailers. Office and industrial properties are subject to risks relating to the quality of their tenants, tenant and industry concentration, local economic conditions, and the age, condition, adaptability and location of the property.

Risks of REIT Debt Securities may include (among others): (i) limited liquidity and secondary market support, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of optional

redemption or sinking fund provisions during periods of declining interest rates, (v) the possibility that earnings of the issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT Debt Securities during periods of rising interest rates and economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for REIT Debt Securities and adversely affect the value of outstanding REIT Debt Securities and the ability of the issuers thereof to repay principal and interest.

Issuers of REIT Debt Securities may be highly leveraged and may not have available to them more traditional methods of financing. The risk associated with acquiring the securities of such issuers generally is greater than is the case with more highly rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of REIT Debt Securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific issuer developments, or the unavailability of additional financing. The risk of loss due to default by the issuer may be significantly greater for the holders of REIT Debt Securities because such securities are unsecured. In addition, the Issuer may incur additional expenses to the extent it is required to seek recovery upon a default of a REIT Debt Security (or any other Collateral Asset) or participate in the restructuring of such obligation. Furthermore, although the Issuer as a holder of a REIT Debt Security may be entitled to vote on certain matters with respect to such REIT Debt Security on which bondholders are entitled to vote under the indenture pursuant to which such REIT Debt Security was issued, such as the remedy for an "event of default" on a REIT Debt Security, the Collateral Manager on behalf of the Issuer may not be able to control such remedies. Moreover, in some instances the Issuer and other holders of an issue of REIT Debt Securities may be compelled to vote as a class with securities issued in other issuances of any underlying issuer.

As a result of the limited liquidity of REIT Debt Securities, their prices have at times experienced significant and rapid decline when a substantial number of holders decided to sell. In addition, the Issuer may have difficulty disposing of certain REIT Debt Securities because there may be a thin trading market for such securities. Reduced secondary market liquidity may have an adverse impact on market price and the Issuer's ability to dispose of particular issues if they become Defaulted Obligations or Credit Risk Obligations.

Because REIT Debt Securities generally evidence an unsecured debt obligation of the related underlying issuer, the REIT Debt Securities will rank junior to any secured debt of the related underlying issuer, and thus, the REIT Debt Securities would be subordinated to the prior payment in full of such debt. Accordingly, any change in an underlying issuer's ability to meet its debt service requirements may have an adverse effect on the ability of the Issuer to make required payments on the Notes and in the event of an underlying issuer's bankruptcy, the Issuer, as the owner of the REIT Debt Securities, will become a general creditor of such underlying issuer. In addition, certain of the underlying issuers may be structured as "UPREITs," which hold most of their assets through an operating partnership in which another entity holds a general partnership interest. Any REIT Debt Securities issued by such an UPREIT may effectively be subordinated to the other debts of the operating partnership. Furthermore, it is likely that the underlying issuers will have outstanding debt secured by mortgages on one or more of their properties. If any underlying issuer is unable to meet its mortgage payments, the mortgage securing its properties could be foreclosed upon by, or the properties could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to such underlying issuer. Any foreclosure would reduce the likelihood of payment in full of the related REIT Debt Security and in some cases could impair the ability of the related underlying issuer to continue to operate, thus further reducing the likelihood of payment of the related REIT Debt Security.

Issuers of REIT Debt Securities may be subject to certain of the following additional risks due to their organizational and operational structure, each of which may adversely affect the value of the REIT Debt Securities. The profitability of an underlying issuer will depend in part on its ability to manage its properties in a cost-efficient and profitable manner. In many cases, the properties of any underlying

issuer will be managed by third party management companies or non-controlled affiliated companies. Therefore, a non-controlled party may take actions that are adverse to the holders of the related REIT Debt Security.

Finally, a real estate investment trust must satisfy certain continuing federal income tax requirements and real estate investment trust qualification requirements. Failure of an underlying issuer in any taxable year to qualify as such will render such underlying issuer subject to tax on its taxable income at regular corporate rates. The additional tax liability of an underlying issuer for the year or years involved would reduce the net earnings of such underlying issuer and would adversely affect its ability to make payments on the REIT Debt Securities of which it is an issuer.

Asset-Backed Securities. A portion of the Collateral Assets may be Asset Backed Securities that are in an Approved Subcategory or Asset Backed Securities that are ABS Credit Card Securities, ABS Automobile Securities or ABS Other Securities (e.g., they cannot otherwise be classified under the RMBS Security, CMBS Security, CDO Security, Insured Security, REIT Debt Security or Interest Only Security categories). The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding Asset-Backed Securities include the relative seniority or subordination of the class of Asset-Backed Securities held by an investor, the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors. With respect to some types of Asset-Backed Securities, the risk is more closely correlated with the default risk on corporate bonds of similar terms and maturities than with the performance of a pool of receivables. In addition, certain Asset-Backed Securities (particularly subordinated Asset-Backed Securities) provide that the non-payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies. Interest not paid in cash will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the yield on such Asset-Backed Securities.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the issuer's or servicer's failure to perform. These two elements may be related, as, for example, in the case of a servicer which does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Market risk arises from the cash flow characteristics of the security, which for most Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to holders of securities and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. For the holder of the security, interest rate risk depends on the expected life of the Asset-Backed Securities which may depend on prepayments on the underlying assets or the occurrence of wind-down or termination events.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with non-standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or

affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Synthetic Securities. A portion of the Collateral Assets may consist of Synthetic Securities. The economic return on a Synthetic Security depends substantially upon the performance of the related Reference Obligation. Reference Obligations may consist of any debt securities or other obligations which satisfy the Eligibility Criteria (except that they may pay interest less frequently than semiannually). Synthetic Securities generally have probability of default, recovery upon default and expected loss characteristics, which are closely correlated to the corresponding Reference Obligation, but may have different maturity dates, coupons, payment dates or other non-credit characteristics than the corresponding Reference Obligation. In addition to the credit risks associated with holding the Reference Obligation, with respect to Synthetic Securities, the Issuer will usually have a contractual relationship only with the related Synthetic Security Counterparty (as defined herein), and not with the Reference Obligor (as defined herein) of the Reference Obligation. Due to the fact that a Synthetic Security, particularly a Synthetic Security structured as a Default Swap, may be illiquid or may not be terminable on demand (or terminable on demand only upon payment of a substantial fee by the Issuer), the Collateral Manager's discretion in determining when to dispose of a Synthetic Security may be limited. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. The Issuer will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of such Synthetic Security Counterparty, and will not have any claim with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities in any one Synthetic Security Counterparty subject the Notes to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty as well as by the Reference Obligor. It is expected that the Initial Purchaser and/or one or more of its affiliates, with acceptable credit support arrangements, if necessary, may act as Synthetic Security Counterparty with respect to a portion of the Synthetic Securities, which may create certain conflicts of interest. See "—Other Considerations—Certain Conflicts of Interest."

The Issuer may also purchase Synthetic Securities structured as Default Swaps. In such cases, the Collateral Manager on behalf of the Issuer may be required to purchase an item of Default Swap Collateral and pledge to the related Synthetic Security Counterparty a first priority security interest in such Default Swap Collateral. In the event a "credit event" occurs under a Synthetic Security structured as a Default Swap, the related Default Swap Collateral will be delivered to the related Synthetic Security Counterparty in exchange for the Deliverable Obligation. In the event that no "credit event" under a Synthetic Security structured as a Default Swap occurs prior to the termination or scheduled maturity of such Synthetic Security, the related Default Swap Collateral will be released from the lien of the Synthetic Security Counterparty and be treated as a Collateral Asset or Eligible Investment to the extent it meets the definition of either such term upon the termination or scheduled maturity of such Synthetic Security. If the Collateral Manager elects to sell or terminate a portion of a Synthetic Security prior to its scheduled maturity, the Collateral Manager will cause such portion of the related Default Swap Collateral required to make any termination payment owed to the related Synthetic Security Counterparty to be delivered to the Synthetic Security Counterparty and the remaining portion of such Default Swap Collateral not required to be pledged to such Synthetic Security Counterparty to be delivered to the Trustee free of such lien. The Collateral Manager, in accordance with the terms of the related Default Swap, may be able to sell or replace Default Swap Collateral prior to the termination or maturity of the related Synthetic Security. The Issuer may realize a loss upon any sale of any Default Swap Collateral.

Insolvency Considerations with Respect to Issuers of Collateral Assets. Various laws enacted for the protection of creditors may apply to the Collateral Assets. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a Collateral Asset, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Collateral Asset and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. In the event of the insolvency of an issuer of a Collateral Asset, payments made on such Collateral Asset could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency. Payments made under residential mortgage loans may also be subject to avoidance in the event of the bankruptcy of the borrower.

In general, if payments on a Collateral Asset are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the Holders of the Notes). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne *first* by the Holders of the Class E Shares, then by the Holders of the Class D Notes, then by the Holders of the Class C Notes, then by Holders of the Class B Notes, then by the Holders of the Class A-2 Notes, and, finally, by the Holders of the Class A-1LT-a Notes, the CP Notes and the Class A-1LT-b Notes (only to the extent such Notes are outstanding at such time). However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a Holder of Securities only to the extent that such court has jurisdiction over such Holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from a Holder that has given value in exchange for its Security, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to structured securities such as the Securities, there can be no assurance that a Holder of the Securities will be able to avoid recapture on this or any other basis.

The Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance, preference or equitable subordination. There can be no assurance, however, as to whether any lending institution or other investor from which the Issuer acquired the Collateral Assets engaged in any such conduct (or any other conduct that would subject the Collateral Assets and the Issuer to insolvency laws) and, if it did, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against the Issuer.

The Collateral Assets consisting of obligations of non-U.S. issuers may be subject to various laws enacted in the countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located or domiciled and may differ depending on whether the issuer is a non-sovereign or a sovereign entity.

Illiquidity of Collateral Assets; Certain Restrictions on Transfer. There may be a limited trading market for many of the Collateral Assets purchased by the Issuer, and in certain instances there may be effectively no trading market therefor. The Issuer's investment in illiquid Collateral Assets may restrict its ability to dispose of such investments if they become Defaulted Obligations or Credit Risk Obligations, in a timely fashion and for an attractive price. Illiquid Collateral Assets may trade at a discount from comparable, more liquid investments.

In addition, it is expected that substantially all of the Collateral Assets other than a portion of the REIT Debt Securities and Asset-Backed Securities will generally not have been registered or qualified under the Securities Act, or the securities laws of any other jurisdiction, and no person or entity will be obligated to register or qualify any such Collateral Assets under the Securities Act or any other securities law. Consequently, the Issuer's transfer of such Collateral Assets will be subject to satisfaction of legal

requirements applicable to transfers that do not require registration or qualification under the Securities Act or any applicable state securities laws and upon satisfaction of certain other provisions of the respective agreements pursuant to which the Collateral Assets were issued. It is expected that such transfers will also be subject to satisfaction of certain other restrictions regarding the transfer thereof to, for the benefit of or with assets of, a Plan, as well as certain other transfer restrictions. The existence of such transfer restrictions will negatively affect the liquidity of, and consequently the price that may be realized upon a sale of, such securities.

The illiquidity of Collateral Assets and the restrictions on transfer of Collateral Assets, in each case as described above, may affect the amount and timing of receipt of proceeds from the sale of Collateral Assets in connection with the exercise of remedies following an Event of Default.

Volatility of Collateral Assets' Market Value. The market value of the Collateral Assets will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuers of the Collateral Assets. A decrease in the market value of the Collateral Assets would adversely affect the proceeds that could be obtained upon the sale of the Collateral Assets and could ultimately affect the ability of the Issuer to (a) effect an Optional Redemption, Tax Redemption or Auction, or (b) pay the principal of the Notes, or make additional distributions to the Class E Shares, upon a liquidation of the Collateral Assets following the occurrence of an Event of Default.

Interest Rate Risk; Hedge Agreements. There will be a floating/fixed rate or basis mismatch between the Notes and those underlying Collateral Assets that bear interest at a fixed rate and there will be a basis and timing mismatch between such Notes and the Collateral Assets which bear interest at a floating rate, since the interest rates on such Collateral Assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes. There will also be a basis mismatch between the Class E Shares and those underlying Collateral Assets that bear interest at a floating rate and a timing mismatch between such Notes and the Collateral Assets which bear interest at a fixed rate, since payments on the Class E Shares are payable monthly while the Collateral Assets may be payable less frequently. The fixed rates and the margins over LIBOR or other floating rates borne by replacement Collateral Assets may be lower than those on sold or amortized Collateral Assets which could cause a significant decline in interest coverage for the Notes. Further, an increase in LIBOR, and therefore in the interest rate borne by the Notes, could adversely affect the interest coverage for the Notes, and a decrease in LIBOR, although also a decrease in the interest rate borne by the Notes, could also adversely impact the interest coverage for the Notes because under the Interest Rate Swap Agreements the Issuer will generally be paying a fixed rate to the Interest Rate Swap Counterparty determined at closing and the fixed rates and spreads of subsequently purchased Collateral Assets may be lower.

On the Closing Date, the Issuer will enter into Interest Rate Swap Agreements to reduce the impact of the interest rate mismatch, and one or more Cashflow Swap Agreements to reduce the impact of the timing mismatches between the payments on the Notes and the receipt of payments on the Collateral Assets. After the Closing Date, subject to the terms of the Indenture and the Collateral Management Agreement including the requirement to satisfy the Rating Agency Condition, and subject to the constraints imposed by AIG FP, as the initial Interest Rate Swap Counterparty, the Collateral Manager may on behalf of the Issuer, employ a variety of hedging strategies, which strategies may vary during the life of the transaction. After the Closing Date, even if the Collateral Manager believes that engaging in a hedging technique (or replacing an existing Hedge Agreement that is terminated) would be beneficial, the Collateral Manager may be unable to do so because (among other reasons) such technique will not satisfy the Rating Agency Condition, the initial Interest Rate Swap Counterparty's consent may be required and not given, such technique may be too costly or insufficient funds may be available for such purpose or the Issuer may be unable to find a counterparty satisfying the requirements of the Indenture and a counterparty that is willing to receive payments from the Issuer subject to the other prior applications set forth in the Priority of Payments and in accordance with the terms of the Indenture.

Accordingly, the Issuer may be unable, as a practical matter, to use hedging techniques to protect against interest rate risk. Despite the Issuer having the benefit of Hedge Agreements, there can be no assurance that the Collateral Assets and the Eligible Investments will in all circumstances generate sufficient Proceeds to make timely payments of stated interest on the Notes or amounts subordinated thereto. There is no assurance that any interest rate hedge will provide the necessary interest rate protection to the Notes or that the cashflow hedge will solve all timing mismatches.

The notional amounts in the Interest Rate Swap Agreements will be based on amortization schedules derived from the anticipated amortization of those Collateral Assets that are Fixed Rate Assets that the Issuer expects to own as of the Closing Date. The amortization schedules will be designed such that on the Closing Date and thereafter on each Measurement Date, the aggregate notional amount under such Interest Rate Swap Agreements will be approximately equal to (i) the outstanding scheduled principal amount of the Notes scheduled to be outstanding on such date less (ii) the outstanding principal amount of Collateral Assets that pay interest pursuant to a floating rate on such date. The Collateral Profile Tests restrict the amount of Floating Rate Assets and Floating Rate Securities that can be purchased. There can be no assurance that the actual amortization of the Collateral Assets will correspond to the anticipated amortization on which the Interest Rate Swap Agreements will be based. The Collateral Assets are subject to prepayment and extension risk which may result in a further mismatch between the cash flow anticipated on the Collateral Assets and any Hedge Agreements.

The Issuer shall not enter into (i) any additional Hedge Agreement (other than Currency Swap Agreements) without obtaining the consent of AIG FP (such consent not to be unreasonably withheld) which consent, in the case of Interest Rate Hedge Agreements which are Deemed Fixed Asset Hedges or Deemed Floating Asset Hedges, shall only be required if such proposed Hedge Agreement would cause the notional amount of all Interest Rate Swap Agreements to exceed certain limits set forth in the Indenture and which consent shall only be required as long as AIG FP remains a Hedge Counterparty, and (ii) any additional Hedge Agreement unless the Rating Agency Condition is satisfied.

The Issuer shall ensure that each Hedge Agreement shall provide that the Issuer will have the option to terminate such Hedge Agreement without cause, in whole or in part, at any time upon payment (or receipt) of a make-whole payment and upon satisfaction of the Applicable Rating Agency Condition. The Issuer shall also ensure that termination of any Interest Rate Swap Agreement (other than a Deemed Fixed Asset Hedge or a Deemed Floating Asset Hedge) or any Cashflow Swap Agreement shall be subject to consent of the initial Hedge Counterparty if the initial Hedge Counterparty is still a Hedge Counterparty at such time (such consent not to be unreasonably withheld) and if the termination of such Hedge Agreement is not caused by the Hedge Counterparty.

Because the Collateral Assets are subject to prepayment and extension risk, the notional amounts under the Interest Rate Swap Agreements from time to time may be greater or lower than the outstanding principal amount of Collateral Assets that the Interest Rate Swap Agreements were intended to hedge. Such an imbalance could require the Issuer to make payments to the Interest Rate Swap Counterparties that exceed the amounts earned from the Collateral Assets unless the Interest Rate Swap Agreements are partially terminated. A partial termination of an Interest Rate Swap Agreement may require that the Issuer pay a termination payment to the Interest Rate Swap Counterparty, which would reduce the Proceeds available for payment on the Notes and may prevent the Applicable Rating Agency Condition from being satisfied, which would prevent the Issuer from effecting a partial termination. The Issuer may also enter into offsetting Interest Rate Swap Agreements, subject to satisfaction of the Applicable Rating Agency Condition and subject to the constraints imposed by AIG FP, as the initial Interest Rate Swap Counterparty, pursuant to which the Interest Rate Swap Counterparty will agree to pay to the Issuer an amount equal to interest on the notional amount at a fixed interest rate specified therein and the Issuer will agree to pay the Interest Rate Swap Counterparty an amount equal to interest on the notional amount at LIBOR. To the extent the fixed rate received under the offsetting Interest Rate Swap Agreement is lower than the fixed rate paid under the initial Interest Rate Swap Agreement, there will be less Proceeds available for payments on the Notes and to make distributions on the Class E Shares.

The Issuer's ability to meet its obligations on the Notes and to make distributions on the Class E Shares will largely depend on the ability of the Hedge Counterparties to meet their respective obligations under the Hedge Agreements. In the event a Hedge Counterparty defaults or a Hedge Agreement is terminated, there can be no assurance that the amounts received from the Collateral Assets will be sufficient to provide for full payments due and payable on the Notes, or that amounts otherwise distributable to the Holders of the Class E Shares will not be reduced.

In the event of the insolvency of a Hedge Counterparty, the Issuer will be treated as a general creditor of such Hedge Counterparty. Consequently, the Issuer will be subject to the credit risk of each Hedge Counterparty. As a result, concentrations of Hedge Agreements in any one Hedge Counterparty subject the Securities to an additional degree of risk with respect to defaults by such Hedge Counterparty.

AIG Financial Products Corp. will be the initial Interest Rate Swap Counterparty and Cashflow Swap Counterparty, and may act as a Currency Swap Counterparty, which may create certain conflicts of interest.

Prospective Purchasers of the Securities should consider and assess for themselves the likelihood of a default by the Hedge Counterparties, as well as the obligations of the Issuer under the Hedge Agreements, including the obligation to make termination payments to any Hedge Counterparties, and the likely ability of the Issuer to terminate or reduce any Hedge Agreements or enter into additional Hedge Agreements.

Collateral Assets Denominated in Non-U.S. Currencies. Investments in Collateral Assets denominated in non-U.S. Dollars create currency exchange risks for the Issuer (including the inability to repatriate currency, devaluation and non-exchangeability). In addition, Collateral Assets denominated in non-U.S. Dollars are likely to be issued by non-U.S. obligors and also involve risks unique to investments in obligations of foreign issuers. See "—International Investing" below. Because the Issuer will calculate its income in U.S. Dollars and will pay the Securities in U.S. Dollars, the Issuer will at the direction of the Collateral Manager enter into one or more Currency Swap Agreements with Currency Swap Counterparties in order to hedge the risks associated with exchange rate fluctuations if it purchases Collateral Assets which are not denominated in U.S. Dollars. However, the amount and timing of distributions on Non-U.S. Dollar Denominated Assets (as defined herein) may not match the anticipated payments hedged by the Currency Swap Agreements, which would leave the amounts available to make payments on the Securities subject to risks from exchange rate fluctuations.

The Principal Balance of a Non-U.S. Dollar Denominated Asset will be an amount equal to the product of the outstanding balance of such Collateral Asset and the exchange rate set forth in the applicable Currency Swap Agreement. Because the notional amount of each Currency Swap Agreement is not linked directly to the principal balance of a Non-U.S. Dollar Denominated Asset, there can be no assurance that the notional amount of each Currency Swap Agreement will not at any time be less than or more than the outstanding principal amount of the applicable Non-U.S. Dollar Denominated Assets. If the prevailing "spot" rate on the spot market is less favorable to the Issuer than the rate established in the applicable Currency Swap Agreement, the calculation of the Principal Balance of the related Non-U.S. Dollar Denominated Asset may not represent the Issuer's actual foreign currency exposure, and correspondingly, the Aggregate Principal Amount, the denominator of each Collateral Profile Test and the Collateral Quality Tests may be overstated or understated when compared to the Issuer's actual exposure to the related foreign currency. Consequently, if such a mismatch exists the Issuer may have less U.S. Dollars available on the related Payment Date to satisfy its obligations under the Priority of Payments.

In addition, non-performance by any Currency Swap Counterparty of its obligations under the applicable Currency Swap Agreement could expose the Issuer to losses. If any Currency Swap Counterparty fails to make the payments required to be made by it under the related Currency Swap Agreement or if a Currency Swap Agreement is terminated (other than a termination or partial termination resulting from a payment in respect of the principal amount of any related Non-U.S. Dollar Denominated Assets), the amounts receivable from Non-U.S. Dollar Denominated Assets will be subject to the risk

associated with exchanging the foreign currency collections received on Non-U.S. Dollar Denominated Assets into U.S. Dollars at then-available exchange rates until a replacement Currency Swap Agreement is executed. Conversion at the then available exchange rates may adversely affect the results of the required Coverage Tests and the ability of the Issuer to make payments on the Notes.

International Investing. A portion of the Collateral Assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, Ireland, the Netherlands Antilles or any other commonly used domicile for structured product transactions or obligations of a Qualifying Foreign Obligor. Moreover, subject to compliance with certain of the Eligibility Criteria described herein, collateral securing some Collateral Assets may consist of obligations of issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws with respect to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Issuer are uninvested and no return is earned thereon. The inability of the Issuer to make intended Collateral Asset purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to dispose of a Collateral Asset due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Collateral Asset or, if the Issuer has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the Issuer, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the Issuer's investments in such foreign countries (which may make it more difficult to pay U.S. Dollar-denominated obligations such as the Collateral Assets). The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Lender Liability Considerations; Equitable Subordination. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively, termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Although it would be a novel application of the lender liability

theories, the Issuer may be subject to allegations of lender liability. However, the Collateral Manager does not intend to engage in conduct that would form the basis for a successful cause of action based upon lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Because of the nature of the Collateral Assets, the Issuer may be subject to claims from creditors of an obligor that Collateral Assets issued by such obligor that are held by the Issuer should be equitably subordinated. However, the Collateral Manager does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine.

The preceding discussion is based upon principles of United States federal and state laws. Insofar as Collateral Assets that are obligations of non-United States obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state laws.

Securities Lending. The Collateral Assets may be loaned to banks, broker-dealers or other financial institutions (other than insurance companies), subject to the limitations set forth in the Collateral Management Agreement. Any such loan must have a term of 90 days or less, and any borrower of Collateral Assets must (i) have a short term senior unsecured debt rating or a guarantor with such rating of at least "P-1" by Moody's or a long term rating or a guarantor with such rating at the time of the loan of at least "A1" from Moody's and (ii) have a short term senior unsecured debt rating or a guarantor with such rating of at least "A-1+" from S&P*; provided* that in each case the Moody's rating shall be the Actual Rating. See "Security for the Notes—Purchase of Collateral Assets." Such loans will be required to be secured by cash or securities issued or guaranteed by the United States of America or any agency or instrumentality thereof, the obligations of which are expressly backed by the full faith and credit of the United States of America, in an amount at least equal to 102% of the market value of the loaned Collateral Assets, determined daily. However, in the event that the borrower of a loaned Collateral Asset defaults on its obligation to return such loaned Collateral Asset because of insolvency or otherwise, the Issuer could experience delays and costs in gaining access to the collateral posted by the borrower (and in extreme circumstances could be restricted from selling the collateral). In the event that the borrower defaults, the Holders of the Securities could suffer a loss to the extent that the realized value of the cash or securities securing the obligation of the borrower to return a loaned Collateral Asset (less expenses) is less than the amount required to purchase such Collateral Asset in the open market. This shortfall could be due to, among other things, discrepancies between the mark-to-market and actual transaction prices for the loaned Collateral Assets arising from limited liquidity or availability of the loaned Collateral Assets and, in extreme circumstances, the loaned Collateral Assets being unavailable at any price. The Rating Agencies may downgrade any of the Securities if a borrower of a Collateral Asset or, if applicable, the entity guaranteeing the performance of such borrower, has been downgraded by any of the Rating Agencies such that the Issuer is not in compliance with the Securities Lending Counterparty (as defined herein) rating requirements. It is expected that the Initial Purchaser and/or one or more of its affiliates, with acceptable credit support arrangements, if necessary, may borrow Collateral Assets, which may create certain conflicts of interest. See "—Other Considerations—Certain Conflicts of Interest."

Other Considerations

The Put Agreement; Conditions to Exercise of Put Option. The Put Option in respect of the CP Notes will be exercised on the date when: (i) the Issuers are not able to issue, sell or place new CP Notes having a tenor not exceeding nine months and a discount less than or equal to LIBOR *plus* 0.16%

per annum or interest rate less than or equal to LIBOR *plus* 0.11% per annum of an applicable maturity (the "Maximum Put Option Strike Rate") in an amount at least equal to the face amount of maturing CP Notes less any amounts in the CP Interest Reserve Account (including the original amount of any Put Counterparty Deposit Amount (as defined below) but excluding any withdrawals made or to be made from the CP Interest Reserve Account on such date) and the CP Principal Reserve Account, or (ii) the short-term rating of the Put Counterparty is downgraded below "A-1" or "P-1" by S&P or Moody's, respectively, collateral is not posted in accordance with the Put Agreement, the Put Counterparty is not replaced in accordance with the Put Agreement and Goldman, Sachs & Co., is a CP Note Placement Agent, (iii) a payment default has occurred with respect to the Class A Notes, the CP Notes or the Class B Notes solely as a result of a failure by AIG FP to make a payment under a Hedge Agreement, (iv) the Put Counterparty has notified the Issuer or the Issuer has notified the Put Counterparty that it elects to terminate the Put Agreement as a consequence of the occurrence of an event of default or termination event thereunder, (v) the Put Agreement is scheduled to terminate as the result of the occurrence of an Event of Default under the Indenture and acceleration under the Indenture and the commencement of the liquidation of Collateral thereunder, (vi) the Put Agreement is scheduled to terminate as the result of an early redemption in full of the Notes and defeasance of the CP Notes in full under the Indenture (with such Put Option termination not in any case becoming effective prior to the earlier of the date on which no CP Notes remain outstanding and the date on which all outstanding CP Notes have been defeased in full under the Indenture), (vii) on or after August 7, 2005 the Put Counterparty elects to terminate the Put Agreement in whole or in part or (viii) a prospective purchaser of CP Notes to be placed on any date fails in its obligation to pay the cash purchase price for such CP Notes it was obligated to purchase on such date. Each of the following conditions must be satisfied to exercise the Put Option: (1) no bankruptcy or insolvency default under the Indenture has occurred with respect to either Co-Issuer, (2) the amounts due to be paid to the Put Counterparty by the Issuer under the Put Agreement have been paid and (3) there are no payment defaults on the Class A Notes, the CP Notes and the Class B Notes (unless such payment default is due solely to a failure by AIG FP to make payments required to be made under any of the Hedge Agreements). Notwithstanding the foregoing, the Put Option will not be exercised if, upon the occurrence of either condition described in clause (i) or (viii) above, the Issuer is able to issue CP Notes having a discount rate that is less than or equal to the discount equivalent of the Maximum Put Option Strike Rate on or before the date of settlement of such Put Option. Notwithstanding the foregoing, the Put Option will not be exercised if, upon the occurrence of either condition described in clause (i) or (viii) above, the Issuer is able to issue CP Notes having a discount rate that is less than or equal to the discount equivalent of the Maximum Put Option Strike Rate on or before the date of settlement of such Put Option. The Put Counterparty will be permitted to make deposits to the CP Interest Reserve Account in an amount (the "Put Counterparty Deposit Amount") sufficient to prevent the Put Option from being exercised under certain conditions. If the Put Counterparty does make such a deposit, discount on the issued CP may in certain cases, exceed the Maximum Put Option Strike Rate. The Put Counterparty is not entitled to be reimbursed for any such deposits. The Put Agreement is subject to typical ISDA default and termination provisions and if any event has occurred which would give rise to a default or termination of the Put Agreement, the Put Counterparty will not be obligated to perform under the Put Option. In the event that the conditions to exercise the Put Option are not satisfied or the Put Counterparty does not, or is not able to, perform its obligations under the Put Option, the sole source that the Issuers may use to make payments on maturing CP Notes will be proceeds from the Collateral Assets, Eligible Investments, the Cashflow Swap and amounts on deposit in the Collection Account and the CP Reserve Accounts. In the event the Put Counterparty is downgraded, it has no obligation to replace itself or collateralize under the Put Agreement.

Voting Rights Held by Put Counterparty. The terms of the various Transaction Documents entitle the Put Counterparty to exercise certain rights pertaining to the Collateral as described herein, subject to any applicable provision of law and any applicable provisions of such Transaction Documents.

Changes in Tax Law; No Gross-Up. Under the Eligibility Criteria, a Collateral Asset will be eligible for purchase by the Issuer if, at the time it is purchased, either the payments thereon are not subject to withholding taxes imposed by any jurisdiction of more than 15% of the interest amounts payable on the Collateral Asset or the obligor is required to make "gross-up" payments that cover the full

amount of any such withholding taxes. In the case of Collateral Assets issued by U.S. obligors after July 18, 1984, payments thereon generally are exempt under current United States tax law from the imposition of United States withholding tax. However, there can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the Collateral Assets would not in the future become subject to additional withholding taxes imposed by the United States of America or another jurisdiction. In that event, if the obligors of such Collateral Assets were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, the amounts available to make payments on, or distributions to, the Holders of the Notes would accordingly be reduced. There can be no assurance that remaining payments on the Collateral would be sufficient to make timely payments of interest on and payment of principal at the Stated Maturity of each Class of the Notes and to make any distributions to the Class E Shares.

In the event that any withholding tax is imposed on (i) payments on the Notes, or (ii) distributions to Holders of the Class E Shares, the Holders of such Securities will not be entitled to receive "grossed-up" amounts to compensate for such withholding tax. In addition, upon the occurrence of a Tax Event, the Issuer may on any Payment Date, whether during or after the Non-Call Period, simultaneously redeem in whole but not in part, at the Tax Redemption Prices specified herein, the Notes in accordance with the procedures described under "Description of the Notes and the Class E Shares—Optional Redemption and Tax Redemption—Optional Redemption/Tax Redemption Procedures" herein. The Class E Shares will be redeemed simultaneously with such redemption of the Notes.

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the future investment strategies employed by the Collateral Manager on behalf of the Issuer may differ substantially from the types of investments and strategies undertaken historically by the Collateral Manager and there can be no assurance that investments made on behalf of the Issuer will perform as well as any past or current fund managed by the Collateral Manager.

Lack of Operating History. The Issuer is a newly incorporated entity and has no prior operating history. Accordingly, the Issuer does not have a performance history for a prospective investor to consider.

Investment Company Act. Neither of the Issuers has registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Securities by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement (as defined herein)). No opinion or no-action position has been requested of the SEC.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (iii) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

The Securities are only permitted to be transferred to Qualified Institutional Buyers in transactions meeting the requirements of Rule 144A and, solely in the case of the Class E Shares, to Accredited Investors in transactions exempt from registration under the Securities Act, or in an offshore transaction, to a non-U.S. Person, complying with Rule 903 or Rule 904 of Regulation S. The Securities being offered in the United States are being offered only to persons that are also Qualified Purchasers. Any non-permitted transfer will be voided and the Issuers can require the transferee to sell its Notes or Class E Shares to a permitted transferee. See "Description of the Notes and the Class E Shares—Form of the Securities" and "Notice to Investors."

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Collateral Assets will be used by the Collateral Manager only as preliminary indicators of investment quality.

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its affiliates or any funds managed by Western and their respective clients and employees and from the conduct by the Initial Purchaser and its affiliates of other transactions with the Issuer, including, without limitation, acting as counterparty with respect to any Hedge Agreements, Securities Lending Agreements and Synthetic Securities. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Collateral Manager and its affiliates may invest for the account of others in debt obligations that would be appropriate as security for the Notes and the CP Notes and have no duty in making such investments to act in a way that is favorable to the Issuer or the Holders of the Notes and the CP Notes. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its affiliates may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its affiliates' other accounts. In addition, the Collateral Manager and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Collateral Manager currently serves and may in the future serve as collateral manager of other companies organized to invest in assets similar to Collateral Assets. The Collateral Manager or any of its affiliates may from time to time simultaneously seek to purchase investments for the Issuer and any similar entity for which it serves as collateral manager, or for its clients or affiliates. Some of the Asset-Backed Securities purchased by the Issuer on the Closing Date may be purchased from portfolios of Asset-Backed Securities held by one or more of the Collateral Manager and its Affiliates and clients. The Issuer will purchase Asset-Backed Securities from the Collateral Manager or any such client or Affiliate on the Closing Date only to the extent (i) such purchases are made at fair market value and otherwise on

arms' length terms and (ii) the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law.

The Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment adviser may at times own Notes of one or more other Classes of Notes, the CP Notes and the Class E Shares. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes and the Class E Shares held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and the Class E Shares held by them and by such accounts with respect to all other matters.

It is expected that Goldman, Sachs & Co. and Goldman Sachs International and/or their respective affiliates will have placed or underwritten certain of the Collateral Assets at original issuance or placed or underwritten underlying assets with regard to certain of the Collateral Assets, will own equity or other securities of issuers of or obligors on Collateral Assets and will have provided investment banking services, advisory, banking and other services to issuers of Collateral Assets. In addition, Western and/or any of its affiliates may own equity or other securities of issuers of or obligors on Collateral Assets and may have provided advisory and other services to issuers of Collateral Assets. From time to time, the Collateral Manager on behalf of the Issuer may purchase or sell Collateral Assets through Goldman, Sachs & Co. and/or any of its affiliates (collectively, "Goldman Sachs"). The Issuer may invest in the securities of companies affiliated with Goldman Sachs and/or Western and/or any of their respective affiliates or in which Goldman Sachs and/or Western and/or any of their respective affiliates have an equity or participation interest. The purchase, holding and sale of such investments by the Issuer may enhance the profitability of Goldman Sachs' and/or Western's and/or any of their respective affiliates' own investments in such companies. In addition, one or more affiliates of Goldman Sachs may also act as counterparty with respect to one or more Synthetic Securities or Securities Lending Agreements and Goldman Sachs will act as the CP Note Placement Agent under one of the CP Placement Agreements. The Issuer may invest in money market funds that are managed by Western or Goldman Sachs or their respective affiliates*; provided* that such money market funds otherwise qualify as Eligible Investments. Goldman, Sachs & Co. or its affiliates will provide "warehouse" financing to the Issuer prior to the Closing Date. See "—Securities—Collateral Accumulation."

There is no limitation or restriction on Western or any of its affiliates acting as collateral manager (or in a similar role) to other parties or persons and similarly, there is no limitation or restriction on the Initial Purchaser or any of its affiliates with regard to acting as investment adviser, initial purchaser or placement agent (or in a similar role) to other parties or persons. This and other future activities of the Collateral Manager, the Initial Purchaser and/or its affiliates may give rise to additional conflicts of interest.

In addition, the Collateral Manager will manage the issuance, sale and timely payment of the CP Notes. Such activities may give rise to conflicts of interest with respect to the Collateral Manager.

Anti-Money Laundering Provisions. The Issuer and the Administrator are subject to anti-money laundering laws and regulations in the Cayman Islands which impose specific requirements with respect to the obligation "to know your client." Except in relation to certain categories of institutional investors, the Issuer will require a detailed verification of each initial investor's identity and the source of the payment used by such investor for purchasing the Securities in a manner similar to the obligations imposed under the laws of other major financial centers. If the Cayman Islands government determined the Issuer was in

violation of the anti-money laundering provisions, the Issuer could be subject to substantial criminal penalties. Payment of any such penalties could materially adversely affect the timing and amount of payments to Holders of the Securities.

In addition, Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti-money laundering obligations on different types of financial institutions, including banks, broker-dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti-money laundering obligations. It is not clear whether Treasury will require entities such as the Issuer to enact anti-money laundering policies. It is possible that Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and/or the Class E Shares. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Notes and/or the Class E Shares. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.

DESCRIPTION OF THE NOTES AND THE CLASS E SHARES

The Notes will be issued by the Issuers, pursuant to, and will have the benefit of and be secured, by the Indenture. The Class E Shares will be issued by the Issuer. The Class E Shares will be issued pursuant to the Issuer's Memorandum and Articles of Association and certain resolutions of the board of directors of the Issuer (the "Resolutions") and will be subject to the Class E Shares Paying and Transfer Agency Agreement (such agreement, together with the Issuer's Memorandum and Articles of Association and the Resolutions, the "Class E Shares Documents"). The following summary describes certain provisions of the Notes, the Class E Shares Paying and Transfer Agency Agreement, the Put Agreement and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Notes, the Class E Shares Documents, the Put Agreement and the Indenture. Electronic copies of the Indenture and the Put Agreement may be obtained by prospective purchasers of the Notes upon request in writing to the Note Paying Agent at JPMorgan Chase Bank, 600 Travis Street, 50th Floor, Houston, Texas 77002 (telephone number (713) 216-4181), and, so long as any Notes are listed on any stock exchange, the Indenture will be available for inspection free of charge from the office of the Trustee or the Listing and Paying Agent. Copies of the Class E Shares Paying and Transfer Agency Agreement and the Issuer's Memorandum and Articles of Association may be obtained by prospective purchasers of Class E Shares upon request in writing to the Class E Share Paying Agent at c/o JPMorgan Chase Bank, 600 Travis Street, 50th Floor, Houston, Texas 77002 (telephone number (713) 216-4181).

Status and Security

The Notes will be limited recourse obligations of the Issuers secured by the Collateral. The Class E Shares will be part of the authorized share capital of the Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for distribution to the Holders of the Class E Shares after payment of all amounts payable prior thereto under the Priority of Payments. Payments of interest on the Class A-1LT-a Notes will be made *pro rata* with interest payments on the Class A-2 Notes. As more fully set forth in the Priority of Payments, principal on the Class A-1LT-a Notes will be paid in full prior to any payments of principal on the Class A-2 Notes in the case of (i) a mandatory redemption on any Payment Date due to the failure to satisfy the Class A/B Interest Coverage Test or the Class C Interest Coverage Test; (ii) a mandatory redemption on any Payment Date due to the failure to satisfy the Class A/B Overcollateralization Test or the Class C Overcollateralization Test or (iii) the occurrence of an Event of Default that has resulted in an acceleration of the Notes. Principal on the Class A-2 Notes will be paid *pro rata* with principal of the Class A-1LT-a Notes in other cases as set forth in the Priority of

Payments. Payments on the CP Notes and the Class A-1LT-b Notes, if any, will be *pari passu* in right of payment on each Payment Date to the Class A-1LT-a Notes. The Class A Notes and the CP Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes and the Class E Shares to the extent provided in the Priority of Payments. The Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Class E Shares to the extent provided in the Priority of Payments. The Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes and the Class E Shares to the extent provided in the Priority of Payments. The Class D Notes will be senior in right of payment on each Payment Date to the Class E Shares to the extent provided in the Priority of Payments. See "—Priority of Payments."

Under the terms of the Indenture, the Issuer will grant to the Trustee and the CP Issuing and Paying Agent, as applicable, for the benefit and security of (i) Holders of the Notes and the CP Notes, (ii) the Hedge Counterparties, (iii) the Put Counterparty, (iv) the CP Note Placement Agents, (v) the CP Issuing and Paying Agent and (vi) the Collateral Manager (collectively, the "Secured Parties"), a first priority security interest (other than with respect to the Default Swap Collateral Account) in certain of its assets that is free of any adverse claim to secure the Issuers' obligations to the Trustee on behalf of the Noteholders and under the Indenture and the Issuer's obligations under each Hedge Agreement, the CP Issuing and Paying Agency Agreement, the Put Agreement, the Collateral Management Agreement and the CP Placement Agreements (the "Secured Obligations"). The assets which will be subject to the security interest of the Indenture will consist of (i) the Collateral Assets; (ii) the Collection Account; (iii) the Payment Account; (iv) the Securities Lending Account (subject to the rights of the Securities Lending Counterparties); (v) the Hedge Termination Receipts Account, the Hedge Replacement Account and the Hedge Collateral Account (subject, in each case, to the rights of the Hedge Counterparties); (vi) the Expense Reserve Account; (vii) the Collateral Account (viii) the Synthetic Security Collateral Account and the Default Swap Collateral Account (subject to the rights of the Synthetic Security Counterparties); (ix) the Currency Swap Receipts Termination Account, the Currency Swap Replacement Account and the Currency Swap Collateral Account (subject, in each case, to the rights of the Currency Swap Counterparties); (x) the Put Collateral Account, (xi) the CP Interest Reserve Account and the CP Principal Reserve Account (pledged only for the benefit of the CP Notes) (items (ii) through (xi), the "Accounts"); (xii) Eligible Investments; (xiii) the Issuer's rights under any Interest Rate Swap Agreements; (xiv) the Issuer's rights under any Cashflow Swap Agreements; (xv) the Issuer's rights under any Currency Swap Agreements; (xvi) the Issuer's rights under the Put Agreement (*provided* that the Issuer's rights under the Put Agreement will be granted to the Trustee for the benefit of the Holders of the CP Notes only, and not for the benefit of any other party); (xvii) the Issuer's rights under any Securities Lending Agreements; (xviii) the Issuer's rights under the Collateral Management Agreement; (xix) the Issuer's rights under the CP Placement Agreements; (xx) all money (as defined in the Uniform Commercial Code) delivered to the Trustee; (xxi) all securities, investments and agreements of any nature in which the Issuer has an interest (except for the Issuer's bank account in the Cayman Islands and the proceeds of the Issuer Ordinary Shares and any transaction fees paid to the Issuer for issuing the Notes which shall be deposited therein and any interest thereon or proceeds thereof, and the Class E Share Payment Account); and (xxii) all proceeds of the foregoing (collectively, the "Collateral").

Payments due on the CP Notes, payments of interest on and principal of the Notes and distributions to Holders of the Class E Shares will be made by the Issuer solely from the proceeds of the Collateral in accordance with the Priority of Payments.

The aggregate amount that will be available for payments required or permitted to be made on the CP Notes, the Notes and fees and expenses owed by the Issuers on any Payment Date will be the sum of (i) the Proceeds received during the period (a "Due Period") ending on (and including) the fifth Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Note, ending on (and including) the day preceding such Payment Date) and commencing immediately following the fifth Business Day prior to the preceding Payment Date (or, in the case of the Due Period relating to the first Payment Date, on the Closing Date) and not reinvested or retained for reinvestment in Collateral Assets, (ii) the proceeds received during the

related Due Period (or, in the case of the final Payment Date, on or prior to the Business Day immediately preceding the final Payment Date) from any additional issuance of Notes, Class E Shares or CP Notes that were not reinvested or retained for reinvestment in Collateral Assets, (iii) any such amounts described in clauses (i) and (ii) received in prior Due Periods that were not disbursed on a previous Payment Date and not reinvested or retained for reinvestment in Collateral Assets and (iv) in the case of the CP Notes, purchase proceeds of newly issued CP Notes, any amount paid pursuant to the Put Agreement and amounts on deposit in the CP Reserve Accounts.

Interest

The Notes will accrue interest from the Closing Date and such interest will be payable monthly on the 7th day of each calendar month beginning on October 7, 2004, or if any such date is not a Business Day, on the immediately following Business Day.

The Class A-1LT-a Notes will bear interest during each Interest Accrual Period at its applicable Class A-1LT-a Note Interest Rate for such Interest Accrual Period. The Class A-1LT-b-1 Notes will bear interest during each Interest Accrual Period at its applicable Class A-1LT-b-1 Note Interest Rate for such Interest Accrual Period. The Class A-1LT-b-2 Notes will bear interest during each Interest Accrual Period at its applicable Class A-1LT-b-2 Note Interest Rate for such Interest Accrual Period. The Class A-2 Notes will bear interest during each Interest Accrual Period at the Class A-2 Note Interest Rate for such Interest Accrual Period. The Class B Notes will bear interest during each Interest Accrual Period at the Class B Note Interest Rate for such Interest Accrual Period. The Class C Notes will bear interest during each Interest Accrual Period at the Class C Note Interest Rate for such Interest Accrual Period. The Class D Notes will bear interest during each Interest Accrual Period at the Class D Note Interest Rate for such Interest Accrual Period.

LIBOR for the first Interest Accrual Period with respect to the Notes will be determined as of the second Business Day preceding the Closing Date, and will be based on one month LIBOR. Calculations of interest on the Notes will be made on the basis of a 360-day year and the actual number of days in each Interest Accrual Period. The "Interest Accrual Period," for any Payment Date with respect to the Notes is the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period, or the date of issuance in the case of the first Interest Accrual Period and any LIBOR CP Notes) and ending on and including the day immediately preceding such Payment Date. See "—Determination of LIBOR."

Interest will cease to accrue on each Note from the date of repayment in full or its Stated Maturity, or in the case of partial repayment, on such part, unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments of principal. See "—Principal." To the extent lawful and enforceable, interest on any Defaulted Interest on any Notes entitled thereto will accrue at the interest rate applicable to such Class of Notes, until paid as provided herein.

The failure to pay interest due on any Class A Notes, the CP Notes or Class B Notes, for so long as any such Notes are outstanding, and, if no such Notes are outstanding, the failure to pay interest due on the Class C Notes when due and payable, and, if no Class C Notes are outstanding, the failure to pay interest due on the Class D Notes when due and payable, and a continuation of such default for a period of 7 days, will constitute an Event of Default under the Indenture.

Distributions on Class E Shares

On each Payment Date, the Holders of the Class E Shares will be entitled to receive, after payment of items ranking higher in accordance with the Priority of Payments, and to the extent of funds legally available therefor, a distribution (if available) equal to the amount necessary for the Class E Shares to achieve a 10% Internal Rate of Return (assuming an initial investment of $18,000,000 on the Closing Date). In addition, on each Payment Date the Holders of Class E Shares will also be entitled to receive, after payment of all other senior amounts payable in accordance with the Priority of Payments,

including any Class E Shares Subordinate Collateral Management Fees accrued for such period, any remaining proceeds. The calculation of the Internal Rate of Return will be made on the basis of amounts deposited to the Class E Share Payment Account regardless of whether such amounts may legally be distributed to the Holders of the Class E Shares under Cayman Islands law. The calculation of distributions and the Internal Rate of Return on the Class E Shares will be made by the Class E Share Paying Agent on the basis of a 360-day year consisting of twelve 30-day months.

"Internal Rate of Return" means, with respect to the Class E Shares and each Payment Date, the rate of return that would result in a net present value of zero, assuming (i) an aggregate purchase price of $1,000 for each Class E Share as the initial negative cash flow on the Closing Date (and on any other date on which additional Class E Shares are issued) and all deposits to the Class E Share Payment Account in respect of payments to the Class E Shares on such Payment Date and each preceding Payment Date as positive cash flows, (ii) the initial date of the calculation as of the Closing Date and (iii) the number of days to each subsequent Payment Date from the Closing Date being calculated on the basis of a 360-day year consisting of twelve 30-day months. Such Internal Rate of Return shall be calculated on a corporate bond equivalent basis. The Stated Amount of the Class E Shares for purposes of calculating the Internal Rate of Return of the Class E Shares will be adjusted to reflect any additional issuance of Class E Shares following the Closing Date.

Legal Provisions Applicable to Distributions on the Class E Shares

Any amounts paid by the Class E Share Paying Agent as distributions on the Class E Shares in accordance with the Priority of Payments and pursuant to the Class E Shares Documents will be payable only to the extent of the Issuer's distributable profits and/or share premium (determined in accordance with Cayman Islands law). In addition, such distributions will be payable only to the extent that the Issuer will not be insolvent after such distributions are paid on the applicable Payment Date. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they come due. To the extent that any amounts received by the Class E Share Paying Agent for the Holders of the Class E Shares cannot legally be distributed to the Holders of the Class E Shares on any Payment Date, the Class E Share Paying Agent will, at the direction of the Issuer, distribute such amounts to the Holders of the Class E Shares on the next Payment Date on which such distribution can legally be made. Amounts paid by the Class E Share Paying Agent on behalf of the Issuer to the Holders of the Class E Shares will be made *pro rata*.

Principal

The Notes will mature on the Payment Date in September 2039 (each such Payment Date, the "Stated Maturity" with respect to such Class of Notes) in each case unless redeemed or retired prior thereto. The Class E Shares are scheduled to receive their final distributions and be redeemed by the Issuer on the Payment Date in September 2039 (the "Scheduled Class E Shares Redemption Date"), in each case unless redeemed prior thereto. The average life of each Class of Notes is expected to be substantially shorter than the number of years from issuance until the Stated Maturity for such Class of Notes. The duration of the Class E Shares is expected to be substantially shorter than the number of years from issuance to the Scheduled Class E Shares Redemption Date. See "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class D Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in October 2004 in an amount equal to the Class D Notes Amortizing Principal Amount with respect to each Payment Date. Principal generally will not be payable on the Notes (other than the Class D Notes as described above) prior to the end of the Reinvestment Period; *provided, however*, that, subject to the availability of funds therefor in accordance with the Priority of Payments certain partial or total mandatory redemptions of the Notes (other than the Class D Notes) may occur due to the failure of certain Coverage Tests as more fully described in the Priority of Payments. The Class D Notes and the Class E Shares will not be subject to mandatory redemption as a result of the failure of any Coverage Test.

Principal will be payable on the Notes by the Issuers in accordance with clause (12) of the Priority of Payments on each Payment Date commencing on the second Payment Date following the Reinvestment Period, or on the first Payment Date following the Reinvestment Period to the extent of any Principal Proceeds which were not reinvested in Collateral Assets before the end of the Reinvestment Period (or on any earlier Payment Date if the Reinvestment Period has been terminated). After the Reinvestment Period, unless the Notes have been accelerated due to an Event of Default, Principal Proceeds will be paid to the CP Principal Reserve Account and to the Holders of the Class A-1LT-a Notes, the Holders of the Class A-1LT-b Notes, if any, and the Holders of the Class A-2 Notes, *pro rata*, only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to a specified target of 107.6% (subject to the Minimum Class A Adjusted Overcollateralization) and after achieving and maintaining such target level and the minimum overcollateralization, the payment of Principal Proceeds will shift to the Class B Notes in an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to a specified target of 104.3% (subject to the Minimum Class B Adjusted Overcollateralization) and after achieving and maintaining such target level and minimum overcollateralization, the payment of Principal Proceeds will shift to the Class C Notes until the Class C Notes are paid in full, and thereafter, the payment of Principal Proceeds will shift to payment of the other items indicated in the Priority of Payments*; provided* that (i) if the long term Actual Rating of a Class of Notes assigned by either Rating Agency is lower than the long term rating originally assigned by such Rating Agency by at least one subcategory, Principal Proceeds that would be allocated to any Class of Notes subordinate to such downgraded Class of Notes on any Payment Date will be allocated to the downgraded Class of Notes until the earlier of the reinstatement of the original long term ratings of such downgraded Class of Notes or payment in full of such downgraded Class of Notes and (ii) if any Coverage Tests are not satisfied on any Determination Date on or after which the Class B Notes have received any payments of Principal Proceeds through this "shifting principal" allocation, Principal Proceeds will be allocated *first*, *pro rata*, to the Class A-1LT-a Notes, the Class A-1LT-b Notes, if any, and the Class A-2 Notes until each such Class is paid in full, and to the CP Principal Reserve Account in an amount equal to the aggregate principal amount of the outstanding CP Notes, *second*, to the Class B Notes until paid in full and, *third*, to the Class C Notes until paid in full.

The Collateral Manager will exercise its sole discretion in determining whether to reinvest Principal Proceeds in Collateral Assets or hold Principal Proceeds for reinvestment during the Reinvestment Period, and after the Reinvestment Period, Unscheduled Principal Payments and Sale Proceeds of Credit Risk Obligations may be reinvested in additional Collateral Assets in accordance with the Reinvestment Criteria. Notwithstanding the foregoing, on the first Payment Date after the last day of the Reinvestment Period, available Principal Proceeds which have not been reinvested in Collateral Assets prior to the last day of the Reinvestment Period shall automatically be applied to reduce the principal balance of the Notes in accordance with clause (12) of the Priority of Payments.

Scheduled Redemption of Class E Shares

On or prior to the date that is one Business Day prior to the Stated Maturity of the Class D Notes, the Issuer (or the Collateral Manager acting on behalf of the Issuer) will liquidate the Collateral. The settlement dates for any such sales shall be no later than one Business Day prior to the Scheduled Class E Shares Redemption Date. The net proceeds of such liquidation and all available cash (other than the U.S.$250 of capital contributed by the owners of the Issuer Ordinary Shares in accordance with the Issuer's Memorandum and Articles of Association and U.S.$250 representing a transaction fee to the Issuer) remaining after the payment (in accordance with the Priority of Payments) of all (i) fees, (ii) expenses (including any amounts required to be paid by the Issuer to the Put Counterparty, any Hedge Counterparty and any Currency Swap Counterparty, (iii) interest on and principal of the Notes and the CP Notes, (iv) accrued dividends on and the Rated Stated Amount of the Class E Shares and (v) all other amounts payable in accordance with the Priority of Payments, will be distributed to the Holders of the Class E Shares in accordance with the Priority of Payments whereupon all of the Notes will be canceled and the Class E Shares will be redeemed by the Issuer.

CP Notes and Defeasance

The CP Notes (other than the LIBOR CP Notes as described herein) will be issued at a discount. To the extent CP Notes are issued with a LIBOR based interest rate (the "LIBOR CP Notes"), they will mature on a Payment Date and will have a maturity that is more than one month and up to nine months after their issuance. Any CP Note with a maturity that is more than three months must be a LIBOR CP Note. The LIBOR CP Notes will bear interest during each Interest Accrual Period at a per annum rate equal to LIBOR for such Interest Accrual Period, commencing on their date of issuance (the "LIBOR CP Note Interest Rate") and will be payable on each Payment Date pari passu with interest on the Class A-1LT-a Notes as described in the Priority of Payments. The maturity date of any CP Note will be extendable by up to three Business Days in the event the Put Option is exercised in accordance with the Put Agreement. See "Security for the Notes–Put Agreement" herein. If the maturity date of a CP Note is so extended, the holder thereof will be entitled to receive accrued interest for the period of such extension at a per annum rate equal to LIBOR *plus* 0.16%. Payment of interest accrued during any such extension will be made first from the CP Interest Reserve Account and, then, to the extent of any shortfall, from the Collection Account.

The LIBOR CP Notes will be subject to early redemption, in part or in whole, and to acceleration and amortization under the following circumstances as described in detail herein: (1) a successful Auction has occurred on or after the Payment Date in September 2014, (ii) the Holders of a Majority of the Class E Shares have directed an Optional Redemption on or after the Payment Date in October 2009, (iii) a Tax Redemption has occurred as a result of a Tax Event, (iv) a Coverage Test was not satisfied or the Class C Overcollateralization Ratio was less than 75% as of any Determination Date, (v) the Reinvestment Period has ended and principal is paid to the Class A Notes or (vi) an Event of Default has occurred under the Indenture and the Notes and the CP Notes have been accelerated. If the LIBOR CP Notes are being redeemed and Defeased in full, an amount necessary to pay the holders of the LIBOR CP Notes par will be deposited to the CP Principal Reserve Account and an amount equal to any accrued interest thereon will be paid to the holders of the LIBOR CP Notes directly and such LIBOR CP Notes will not continue to accrue interest beyond their respective Redemption Dates, dates of Mandatory Redemption in full or Exception Payment Dates, as applicable. Any amounts deposited to the CP Principal Reserve Account will be applied by the CP Issuing and Paying Agent on the applicable Redemption Date, date of Mandatory Redemption in full or Exception Payment Date to the Defeasance of such LIBOR CP Notes. In the event of a Mandatory Redemption or partial amortization of the CP Notes under the Indenture, the Defeasance of the CP Notes may not be in whole. The CP Issuing and Paying Agent, at the direction of the Collateral Manager upon consultation with the CP Agents, will cause CP Notes to be Defeased in the order of their choice; *provided* that, if the liquidation proceeds available following an Event of Default and acceleration are not sufficient to pay the CP Notes in full or in any situation where the CP Notes would not receive payment in full (including in connection with a Mandatory Redemption or amortization on a Payment Date) the CP Notes would be Defeased *pro rata*.

When used herein, the term "Defease" or "Defeasance" means, with respect to any CP Note (other than a LIBOR CP Note), the depositing of cash into the CP Principal Reserve Account to be applied to the repayment of the CP Notes on their maturity dates, such maturity dates set according to the terms of the respective CP Notes, and, with respect to any LIBOR CP Note, the depositing of cash into the CP Principal Reserve Account to be applied to the repayment of the principal amount of LIBOR CP Notes on the earlier of their initial scheduled maturity dates or on any Mandatory Redemption date, Redemption Date or Exception Payment Date where principal is paid to the CP Principal Reserve Account on account of a LIBOR CP Note. For the avoidance of doubt, accrued interest paid to the Holders of the LIBOR CP Notes upon a Mandatory Redemption, on a Payment Date, Redemption Date or on an Exception Payment Date or otherwise will not be deposited to the CP Principal Reserve Account but will instead be paid directly to the Holders of the LIBOR CP Notes and such amounts will not be considered to Defease the LIBOR CP Notes.

The CP Notes (other than the LIBOR CP Notes) will not be subject to early redemption or to acceleration but will instead be subject to Defeasance under circumstances that would result in early redemption or acceleration of the LIBOR CP Notes. If the CP Notes (other than the LIBOR CP Notes) are Defeased under such circumstances, the amounts deposited to the CP Principal Reserve Account will not be applied by the CP Issuing and Paying Agent to the repayment of the CP Notes (other than the LIBOR CP Notes) until their respective maturity dates.

Determination of LIBOR

For purposes of calculating the Class A-1LT-a Note Interest Rate, the Class A-1LT-b-1 Note Interest Rate, the Class A-1LT-b-2 Note Interest Rate, the Class A-2 Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate and the Class D Note Interest Rate, the Issuers will appoint as agent JPMorgan Chase Bank (in such capacity, the "Note Calculation Agent"). LIBOR shall be determined by the Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of an Interest Accrual Period (each such day, a "LIBOR Determination Date"), LIBOR shall equal the rate, as obtained by the Note Calculation Agent, for Eurodollar deposits for the one-month period which appears on Bridge Telerate Page 3750 (as Telerate is defined in the International Swaps and Derivatives Association, Inc. Annex to the 2000 ISDA Definitions (June 2000 version)), or such page as may replace Bridge Telerate Page 3750, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Bridge Telerate Page 3750, or such page as may replace Bridge Telerate Page 3750, the Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks (as defined below) to leading banks in the London interbank market for Eurodollar deposits for the one-month period in an amount determined by the Note Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer) are quoting on the relevant LIBOR Determination Date for Eurodollar deposits for the applicable period in an amount determined by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer) by reference to the principal London offices of leading banks in the London interbank market*; provided, however*, that if the Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer).

As soon as possible after 11:00 a.m. (New York time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Note Calculation Agent will cause notice of the Class A-1LT-a Note Interest Rate, the Class A-1LT-b-1 Note Interest Rate, the Class A-1LT-b-2 Note Interest Rate, the Class A-2 Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate and the Class D Note Interest Rate for the next Interest Accrual Period and the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class A-1LT-a Notes (the "Class A-1LT-a Note Interest Amount"), of the Class A-1LT-b-1 Notes (the "Class A-1LT-b-1 Note Interest Amount"), of the Class A-1LT-b-2 Notes (the "Class A-1LT-b-2 Note Interest Amount"), of the Class A-2 Notes (the "Class A-2 Note Interest Amount"), of the Class B Notes (the "Class B Note Interest Amount"), of the Class C Notes (the "Class C Note Interest Amount") and of the Class D Notes (the "Class D Note Interest Amount") (each rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, DTC, Euroclear, Clearstream, the Note Paying Agents,

the Trustee, the Collateral Manager, the Securities Intermediary, the Listing and Paying Agent and the applicable stock exchange (as long as any of the Notes are listed thereon). In the last case, the Note Calculation Agent will furnish such information as soon as possible after its determination to the stock exchange as long as any Notes are listed thereon. The Note Calculation Agent will also specify to the Issuers and the Collateral Manager the quotations upon which the Class A-1LT-a Note Interest Rate, the Class A-1LT-b-1 Note Interest Rate, the Class A-1LT-b-2 Note Interest Rate, the Class A-2 Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate and the Class D Note Interest Rate are based. The Note Calculation Agent shall notify the Issuers and the Collateral Manager before 12:00 p.m. (New York time) on any LIBOR Determination Date if it has not determined and is not in the process of determining the applicable Class A-1LT-a Note Interest Rate, Class A-1LT-b-1 Note Interest Rate, Class A-1LT-b-2 Note Interest Rate, Class A-2 Note Interest Rate, Class B Note Interest Rate, Class C Note Interest Rate, Class D Note Interest Rate, Class A-1LT-a Note Interest Amount, Class A-1LT-b-1 Note Interest Amount, Class A-1LT-b-2 Note Interest Amount, Class A-2 Note Interest Amount, Class B Note Interest Amount, Class C Note Interest Amount and Class D Note Interest Amount (collectively, the "Interest Calculations"), together with its reasons therefor. With respect to the Notes, "Business Day" means any day other than (x) Saturday or Sunday or (y) a day on which commercial banking institutions are authorized or obligated by law, regulation or executive order to close in New York, New York; *provided, however*, that for the sole purpose of determining LIBOR, "Business Day" shall be defined as any day on which dealings in deposits in U.S. Dollars are transacted in the London interbank market and *provided further*, that to the extent action is required of the Listing and Paying Agent, the location of the Listing and Paying Agent shall be considered in determining the "Business Day" for purposes of determining when such Listing and Paying Agent action is required.

The Note Calculation Agent may be removed by the Issuers at any time. If the Note Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, or if the Note Calculation Agent fails to determine the applicable Interest Calculations for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control or is not controlled by or under common control with the Issuers or their affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. In addition, for so long as any Notes are listed on any stock exchange and the rules of such exchange so require, notice of the appointment of any Note Calculation Agent will be furnished to such stock exchange. For so long as any of the Notes remain outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the applicable Interest Calculations. The determination of the applicable Interest Calculations by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Auction

Sixty days prior to the Payment Date occurring in September of each year (each, an "Auction Payment Date") commencing on the September 2014 Payment Date, the Collateral Manager will take steps to conduct an auction (the "Auction") of the Collateral Assets in accordance with procedures specified in the Indenture. If the Collateral Manager receives one or more bids from Eligible Bidders not later than ten Business Days prior to an Auction Payment Date equal to or greater than the Minimum Bid Amount, it will sell the Collateral Assets for settlement on or before the fifth Business Day prior to the Auction Payment Date and the CP Notes will be Defeased in full, and the Notes and the Class E Shares will be redeemed in whole on the Auction Payment Date. "Eligible Bidders" are institutions, which may include the Initial Purchaser or its affiliates or the Collateral Manager or its affiliates, or Holders of Notes or Class E Shares, whose short-term unsecured debt obligations have a rating of at least "P-1" by Moody's and "A-1+" by S&P. If any single bid, or the aggregate amount of multiple bids, does not equal or exceed the Minimum Bid Amount or if there is a failure at settlement, then the Defeasance of the CP Notes and the redemption of the Notes and the Class E Shares on the related Auction Payment Date will not occur and a new Auction will be conducted on the following Auction Payment Date. The aggregate minimum bid amount (the "Minimum Bid Amount") is an amount equal to (x) the sum of (a) the Auction Redemption Prices for all the Notes, the CP Notes and the Class E Shares, (b) any amount payable to all

Hedge Counterparties in connection with the termination of the Hedge Agreements, less any amounts to be received from all Hedge Counterparties in connection with the termination of the Hedge Agreements, (c) any amount payable to the Put Counterparty and the CP Note Placement Agents in connection with the termination of the Put Agreement and the CP Placement Agreements, (d) any accrued and unpaid Base Collateral Management Fee and Debt Subordinate Collateral Management Fee payable on the related Auction Payment Date, after giving effect to all other payments to be made on such Auction Payment Date in accordance with the Priority of Payments and (e) 101% of all other unpaid fees and expenses of the Issuer, including all expenses reasonably expected to be incurred by the Issuer through the related Auction Payment Date less (y) the sum of amounts on deposit in the Accounts which may be used to redeem the Securities, to redeem and Defease the LIBOR CP Notes and to Defease the other CP Notes. The Minimum Bid Amount does not require any additional distributions to the Holders of the Class E Shares.

The Notes will be redeemed and the CP Notes will be Defeased following a successful Auction at their Auction Redemption Prices. The amount distributable as the final distribution on the Class E Shares following any such redemption will equal any amount remaining after the redemption or Defeasance, as applicable, of the Notes and the CP Notes at the Auction Redemption Prices, the payment of any amounts due in connection with the termination of any Hedge Agreements and the Put Agreement and the payment of fees and expenses, in accordance with the Priority of Payments.

The Collateral Manager will, not later than nine Business Days prior to a relevant Auction Payment Date, give the Trustee, the Securities Intermediary, the Note Paying Agent and the Class E Share Paying Agent notice of the redemption or Defeasance, as applicable, of the Notes, the CP Notes and the Class E Shares and the amount of any distributions on the Class E Shares on such Payment Date. If the Minimum Bid Amount is not offered by any Eligible Bidder on or before the tenth Business Day before a relevant Auction Payment Date or if there is a failed settlement on or before the last day of a Due Period before a relevant Auction Payment Date, the Securities shall not be redeemed, the CP Notes shall not be Defeased and a final distribution on the Class E Shares shall not be made and the Collateral Manager shall give notice thereof as promptly as practicable to the Trustee, the Note Paying Agent, the Class E Share Paying Agent and the Securities Intermediary.

Optional Redemption and Tax Redemption

Subject to certain conditions described herein, The Notes may be redeemed and the CP Notes Defeased by the Issuers and the Class E Shares may be redeemed by the Issuer, in whole but not in part at their Optional Redemption Prices on any Payment Date on or after October 2009, at the written direction of, or with the written consent of, the Holders of at least a Majority of the Class E Shares (including Class E Shares held by the Collateral Manager or any affiliate thereof) (such redemption, an "Optional Redemption"); *provided* that no Optional Redemption shall be effected unless the expected Liquidation Proceeds will equal or exceed the Total Redemption Amount. If the Holders of the Class E Shares so elect to cause an Optional Redemption, the Class E Shares will be redeemed simultaneously with the Notes.

In addition, the Notes may be redeemed and the CP Notes Defeased by the Issuers and the Class E Shares may be redeemed by the Issuer at any time, in whole but not in part at their Tax Redemption Prices during or after the Non-Call Period, at the written direction of, or with the written consent of, (i) the Holders of at least 66-2/3% of the affected Class E Shares upon the occurrence of a Tax Event or (ii) the Holders of a Majority of any Class of Notes which, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest then due and payable on such Class on any Payment Date (such redemption, a "Tax Redemption"); *provided* that no such redemption shall be effected unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. If the Holders of the Class E Shares or the Holders of the Notes so elect to cause the redemption of the Notes, the Class E Shares will be redeemed simultaneously with the Notes.

In connection with an Optional Redemption or a Tax Redemption, the Issuers (in the case of the Notes) or the Issuer (in the case of the Class E Shares) shall notify the Trustee of such Optional Redemption or Tax Redemption and the Payment Date which is the date for redemption (together with an Auction Payment Date, the "Redemption Date") and direct the Trustee, in writing, to sell, in the manner determined by the Collateral Manager, and in accordance with the Indenture, any Collateral Assets and upon any such sale the Trustee shall release the lien upon such Collateral Assets pursuant to the Indenture*; provided, however,* that the Issuer may not direct the Trustee to sell (and the Trustee shall not be obligated to release the lien upon) any Collateral Asset except in accordance with the procedures described in "—Optional Redemption/Tax Redemption Procedures," including, without limitation, the requirement that the Collateral Manager shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the disposition of the Collateral Assets and other assets of the Issuer will equal or exceed the Total Redemption Amount.

The amount payable in connection with any Optional Redemption or Tax Redemption of the Notes will equal the Total Redemption Amount. The "Total Redemption Amount" means the sum of all amounts due pursuant to clauses (1), (2), (3), (4), (5) and (6) (without regard to any limitations contained therein) of the Priority of Payments for Exception Payment Dates (which includes, in the case of an Optional Redemption, the Optional Redemption Prices for all the Notes and the Class E Shares, and in the case of a Tax Redemption, the Tax Redemption Prices for all the Notes and the Class E Shares).

On each Payment Date on which an Optional Redemption or Tax Redemption is occurring pursuant to the procedures described herein, Liquidation Proceeds will be distributed pursuant to the Priority of Payments for Exception Payment Dates.

Optional Redemption/Tax Redemption Procedures. To conduct an Optional Redemption or a Tax Redemption, the procedures set forth in the Indenture must be followed and any conditions precedent thereto must be satisfied. If in the case of an Optional Redemption, any Holder of a Class E Share or, in the case of a Tax Redemption, any Holder of a Class E Share affected by a Tax Event or Holder of a Note affected by a Tax Event desires to direct the Issuers, with respect to the Notes and the CP Notes, and the Issuer, with respect to the Class E Shares, to redeem or Defease the Notes, the CP Notes and the Class E Shares, such person shall notify the Note Paying Agent, in the case of the Holders of the Notes, the CP Issuing and Paying Agent, in the case of the CP Notes or the Class E Share Paying Agent, in the case of the Class E Shares, which in each case shall in turn notify the Trustee, the Securities Intermediary (with a copy to the Issuer, the Put Counterparty, the Collateral Manager, each Hedge Counterparty and each CP Note Placement Agent) of such desire in writing no less than thirty (30) Business Days prior to a Payment Date. Such notice shall be irrevocable. The Class E Share Paying Agent shall, within two (2) Business Days after receiving such notice, notify the other Holders of the Class E Shares of the receipt of such notice.

The Trustee will provide notice of any Optional Redemption or Tax Redemption by first-class mail, postage prepaid, mailed not less than ten (10) Business Days prior to the scheduled Redemption Date, to the Note Paying Agent, to each Hedge Counterparty, to the Class E Share Paying Agent, to the CP Issuing and Paying Agent, to the Put Counterparty and to each Holder at such Holder's address in the register maintained by the Note Registrar under the Indenture, and the Trustee will also give notice to the Listing and Paying Agent for provision to the applicable stock exchange as long as such Notes or Class E Shares are then listed thereon.

Any notice of redemption may be withdrawn by the Issuers on or prior to the seventh Business Day prior to the scheduled Redemption Date by written notice from the Issuers to the Holders with a copy to each Hedge Counterparty, the Put Counterparty, the Trustee, each CP Note Placement Agent, the Rating Agencies and the Collateral Manager, but only if the Collateral Manager shall be unable to deliver such sale agreement or agreements or certifications, as the case may be, in form satisfactory to the Trustee. None of the Hedge Agreements terminate upon notice to the respective counterparties of redemption until the time for withdrawal of notice has expired. The Collateral Manager shall be liable only for the failure to effect an Optional Redemption or Tax Redemption due to the Collateral Manager's gross

negligence or willful misconduct. The Trustee or the Class E Share Paying Agent will also give notice to the Listing and Paying Agent for provision to the applicable stock exchange as long as the Notes or the Class E Shares, as applicable, are then listed thereon.

The Notes and the CP Notes called for redemption or defeasance, as applicable, must be surrendered at the office of any paying agent appointed under the Indenture in order to receive the applicable Optional Redemption Price or Tax Redemption Price. The initial paying agents for the Notes and the CP Notes are JPMorgan Chase Bank, as Note Paying Agent.

Mandatory Redemption

Other than with respect to an Exception Payment Date, on any Payment Date on which any Coverage Test was not satisfied on the last Business Day of the immediately preceding Due Period (such Business Day, the "Determination Date"), the Notes (other than the Class D Notes) will be redeemed at par and the CP Notes will be Defeased (such redemption or Defeasance, a "Mandatory Redemption") as follows:

If the Class A/B Overcollateralization Test is not satisfied on any Determination Date, then Proceeds net of amounts payable under clauses (1) through (6) of the Priority of Payments will be used to redeem or Defease the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes, *pro rata*, and then the Class A-2 Notes until the applicable Class A/B Overcollateralization Test has been satisfied and if the Class A Notes and the CP Notes have been paid or Defeased in full before satisfaction of the Class A/B Overcollateralization Test, then to redeem the Class B Notes until the Class A/B Overcollateralization Test has been satisfied. If the Class A/B Interest Coverage Test (together with the Class A/B Overcollateralization Test, the "Class A/B Coverage Tests") is not satisfied on any Determination Date, then Proceeds net of amounts payable under clauses (1) through (6) of the Priority of Payments will be used to redeem the Class A-1LT-a Notes and the Class A-1LT-b Notes and to Defease the CP Notes, *pro rata*, until paid or Defeased in full, then to redeem the Class A-2 Notes until paid in full and then to redeem the Class B Notes until paid in full. The Class C Notes, the Class D Notes and the Class E Shares will not be subject to mandatory redemption as a result of the failure of any Class A/B Coverage Test.

If the Class C Overcollateralization Test is not satisfied on any Determination Date, then Proceeds net of amounts payable under clauses (1) through (9) of the Priority of Payments will be used to redeem or Defease the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes, *pro rata*, and then the Class A-2 Notes until the Class C Overcollateralization Test has been satisfied and if the Class A Notes and the CP Notes have been paid or Defeased in full before satisfaction of the Class C Overcollateralization Test, then to redeem the Class B Notes until the Class C Overcollateralization Test has been satisfied and if the Class B Notes have been paid in full before satisfaction of the Class C Overcollateralization Test, then to redeem the Class C Notes until the Class C Overcollateralization Test has been satisfied. If the Class C Interest Coverage Test (together with the Class C Overcollateralization Test, the "Class C Coverage Tests") is not satisfied on any Determination Date, the Proceeds net of amounts payable under clauses (1) through (9) of the Priority of Payments will be used to redeem the Class A-1LT-a Notes, the Class A-1LT-b Notes and to Defease the CP Notes, *pro rata*, until paid or Defeased in full, then to redeem the Class A-2 Notes until paid in full, then to redeem the Class B Notes until paid in full and then to redeem the Class C Notes until paid in full. The Class D Notes and the Class E Shares will not be subject to mandatory redemption as a result of the failure of any Class C Coverage Test.

If any Coverage Test is not satisfied on any Determination Date, the Collateral Manager is not permitted to sell Collateral Assets to generate additional Proceeds to be applied to Defease the CP Notes, to redeem the Notes and to satisfy such Coverage Tests except to the extent such Collateral Assets may, at the discretion of the Collateral Manager, be otherwise sold as Credit Improved Obligations, Credit Risk Obligations, Defaulted Obligations or Discretionary Sales as described herein.

The Class A Notes and the Class B Notes are subject to mandatory redemption at par and the CP Notes are subject to Defeasance in accordance with the Priority of Payments on any Payment Date if the Class C Overcollateralization Ratio is less than 75% on the Determination Date.

In connection with the mandatory redemption or defeasance of any Notes or CP Notes due to the failure to satisfy the Coverage Tests, the Issuer may terminate a portion of any Hedge Agreement upon satisfaction of the Rating Agency Condition. A termination payment may be payable by the Issuer to any Hedge Counterparty, which termination payment will be payable prior to the payment of interest or principal on the Notes, in accordance with the Priority of Payments.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments on any Payment Date in respect of principal of and interest on the Notes issued as Global Notes will be made to the person in whose name the relevant Global Note is registered at the close of business on the Business Day prior to such Payment Date. For the Notes issued in definitive form, payments on any Payment Date in respect of principal, interest and other distributions will be made to the person in whose name the relevant Note is registered as of the close of business 10 Business Days prior to such Payment Date. Payments on the Notes will be payable by wire transfer in immediately available funds to a U.S. Dollar account maintained by DTC or its nominee (in the case of the Global Notes) or each Holder (in the case of individual definitive notes) to the extent practicable or otherwise by U.S. Dollar check drawn on a bank in the United States sent by mail either to DTC or its nominee (in the case of the Global Notes), or to each Holder at its address appearing in the applicable register. Final payments in respect of principal on the Notes will be made only against surrender of the Notes at the office of any paying agent. None of the Issuers, the Securities Intermediary, the Trustee, any Hedge Counterparty or the Put Counterparty or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Note.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

If any payment on a Note is due on a day that is not a Business Day, then payment will not be made until the next succeeding Business Day.

For so long as the Notes are listed on any stock exchange and the rules of such exchange so require, the Issuers will have a paying agent and a transfer agent (which shall be the Listing and Paying Agent) for such Notes and payments on and transfers or exchanges of interest in such Notes may be effected through the Listing and Paying Agent. In the event that the Listing and Paying Agent is replaced at any time during such period, notice of the appointment of any replacement will be given to the applicable stock exchange as long as any Securities are listed thereon.

Priority of Payments

With respect to any Payment Date (other than a Redemption Date or an Exception Payment Date), all Proceeds received on the Collateral during the related Due Period in respect of the Collateral will be applied by the Trustee in the priority set forth below (the "Priority of Payments"). For purposes of the Priority of Payments, amounts paid as interest, fees or distributions on the Notes on a "*pro rata*" basis shall be *pro rata* based on the amount of interest due on such Class or subclass of Notes or fees, amounts paid as principal shall be paid *pro rata* based on the amount of principal then outstanding on such Class or subclass of Notes and unless stated otherwise, Proceeds not constituting Principal Proceeds will be assumed to be applied prior to any Principal Proceeds.

On the Business Day prior to each Payment Date, the Trustee will transfer all funds then on deposit in the Collection Account (other than amounts received after the end of the related Due Period) into the Payment Account. On each Payment Date (other than an Exception Payment Date or an Auction Payment Date), amounts in the Payment Account will be applied by the Trustee in the manner and order of priority set forth below:

(1) to the payment of taxes and government filing and registration fees owed by the Issuers, if any;

(2) to the payment of fees to the Trustee up to a maximum amount on any Payment Date equal to 0.0008334% of the Monthly Asset Amount for the related Due Period (or, in the case of the first Due Period, up to a maximum amount on the first Payment Date equal to 0.0019445% of the Monthly Asset Amount);

(3) *first,* (a) to the payment, *pro rata*, of any remaining accrued and unpaid Administrative Expenses of the Issuers, excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers; and *third*, (c) to the Expense Reserve Account the lesser of $25,000 and the amount necessary to bring the balance of such account to $275,000*; provided, however*, that the aggregate payments pursuant to subclauses (a)-(c) of this clause (3) on any Payment Date shall not exceed $300,000 and the total distributions in subclauses (a) and (b) of this clause (3) and the prior 11 Payment Dates shall not exceed $500,000;

(4) to the payment of (a) *first,* amounts, if any, scheduled to be paid to the Hedge Counterparties pursuant to the Hedge Agreements (other than termination payments payable under (b) below) and (b) *second,* any termination payments payable by the Issuer pursuant to the Hedge Agreements including any termination or partial termination of a Hedge Agreement (other than any Defaulted Hedge Termination Payments required to be paid pursuant to clause (18) below);

(5) to the payment of accrued and unpaid Base Collateral Management Fee;

(6) to the payment of (a) *first, pro rata* (based upon the amount due), of (i) accrued and unpaid interest on the Class A-1LT-a Notes (including any Defaulted Interest and interest thereon), (ii) accrued and unpaid interest on the Class A-1LT-b Notes, if any, (including any Defaulted Interest and interest thereon), (iii) to the payment into the CP Interest Reserve Account up to the lesser of (A) an amount such that funds on deposit in the CP Interest Reserve Account equal the CP Interest Reserve Required Amount on such Payment Date and (B) the Capped CP Amount, (iv) to the holders of the LIBOR CP Notes, if any, accrued and unpaid interest on any LIBOR CP Notes then outstanding, (v) accrued and unpaid interest on the Class A-2 Notes (including any Defaulted Interest and interest thereon), (vi) the Put Premium, if any, payable to the Put Counterparty and (vii) the CP Note Placement Agent Fee (to the extent not incorporated in the discount for the CP Notes), if any, payable to the CP Note Placement Agents in accordance with the CP Note Placement Agreements; and (b) *second*, accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);

(7) if the Class A/B Overcollateralization Test is not satisfied on a *pro forma* basis on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and reinvestments on such Payment Date (without giving effect to any payments pursuant to this clause (7)) or if the Class A/B Interest Coverage Test is not satisfied on the Determination Date with respect to the related Payment Date, then:

(a) if the Class A/B Interest Coverage Test is satisfied on the related Determination Date and if the Class A/B Overcollateralization Test is not satisfied on the related Determination Date, then *first, pro rata*, (i) to the payment of principal of all outstanding Class A-1LT-a Notes, (ii) to the payment of principal of all outstanding Class A-1LT-b Notes and (iii) to the payment to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount, to the extent necessary to cause the Class A/B Overcollateralization Test to be satisfied, or until the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes are paid or Defeased in full, *second*, to the payment of principal of all outstanding Class A-2 Notes to the extent necessary to cause the Class A/B Overcollateralization Test to be satisfied, or until the Class A-2 Notes are paid in full, and *third*, to the payment of principal of all outstanding Class B Notes to the extent necessary to cause the Class A/B Overcollateralization Test to be satisfied, or until the Class B Notes are paid in full, and

(b) if the Class A/B Interest Coverage Test is not satisfied on the related Determination Date, then *first, pro rata*, (i) to the payment of principal of all outstanding Class A-1LT-a Notes, (ii) to the payment of principal of all outstanding Class A-1LT-b Notes and (iii) to the payment to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount, until the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes are paid or Defeased in full, *second*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, and *third*, to the payment of all outstanding Class B Notes until the Class B Notes are paid in full;

(8) if the Class C Overcollateralization Ratio is less than 75% on the Determination Date, then *first*, *pro rata*, (i) to the payment of principal of all outstanding Class A-1LT-a Notes, (ii) to the payment of principal of all outstanding Class A-1LT-b Notes and (iii) to the payment to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount, until the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes are paid or Defeased in full, *second*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full and *third*, to the payment of all outstanding Class B Notes until the Class B Notes are paid in full;

(9) to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon but not including Class C Deferred Interest);

(10) if the Class C Overcollateralization Test is not satisfied on a *pro* forma basis on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and reinvestments on such Payment Date (without giving effect to any payments pursuant to this clause (10)) or the Class C Interest Coverage Test is not satisfied on the Determination Date with respect to the related Payment Date, then:

(a) if the Class C Interest Coverage Test is satisfied on the related Determination Date and if the Class C Overcollateralization Test is not satisfied after giving effect to such application, then *first, pro rata*, (i) to the payment of principal of all outstanding Class A-1LT-a Notes, (ii) to the payment of principal of all outstanding Class A-1LT-b Notes and (iii) to the payment to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount, to the extent necessary to cause the Class C Overcollateralization Test to be satisfied, or until the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes are paid or Defeased in full, *second*, to the payment of principal of all outstanding Class A-2 Notes to the extent necessary to cause the Class C

Overcollateralization Test to be satisfied, or until the Class A-2 Notes are paid in full, *third*, to the payment of principal of all outstanding Class B Notes to the extent necessary to cause the Class C Overcollateralization Test to be satisfied, or until the Class B Notes are paid in full, and *fourth*, to the payment of principal of all outstanding Class C Notes to the extent necessary to cause the Class C Overcollateralization Test to be satisfied, and

(b) if the Class C Interest Coverage Test is not satisfied on the related Determination Date, then *first*, *pro rata*, (i) to the payment of principal of all outstanding Class A-1LT-a Notes, (ii) to the payment of principal of any outstanding Class A-1LT-b Notes and (iii) to the payment to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount, until the Class A-1LT-a Notes, the Class A-1LT-b Notes and the CP Notes are paid or Defeased in full, *second*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, *third*, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full, and *fourth*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full;

(11) (a) prior to the end of the Reinvestment Period, to the purchase of additional Collateral Assets or to the Collection Account for reinvestment in Eligible Investments pending investment in additional Collateral Assets in accordance with the Reinvestment Criteria, in an amount equal to the amount of Principal Proceeds received during the related Due Period less the amount of Principal Proceeds previously reinvested in substitute Collateral Assets during such Due Period and (b) after the Reinvestment Period, at the discretion of the Collateral Manager, to the purchase of additional Collateral Assets or to the Collection Account for reinvestment in Eligible Investments pending investment in additional Collateral Assets in accordance with the Reinvestment Criteria, in an amount equal to the sum of any Unscheduled Principal Payments in whole and any Sale Proceeds from the disposition of Credit Risk Obligations received during the related Due Period less the amount of Principal Proceeds previously reinvested in substitute Collateral Assets during such Due Period;

(12) on or after the second Payment Date after the last day of the Reinvestment Period (and on the first such Payment Date with respect to any Principal Proceeds which have not been invested in Collateral Assets on or prior to the last day of the Reinvestment Period), to the payment *first*, *pro rata*, (1) of principal of the Class A-1LT-a Notes, (2) of principal of the Class A-1LT-b Notes, (3) to the CP Principal Reserve Account in an amount equal to the CP Principal Reserve Required Amount and (4) of principal of the Class A-2 Notes, in the aggregate up to the amount specified in subclause (ii)(A) below, *second*, of principal to the Class B Notes up to the amount specified in subclause (ii)(B) below, and *third*, of principal to the Class C Notes up to the amount specified in subclause (ii)(C) below, in an aggregate amount equal to the lesser of (i) Principal Proceeds received during the related Due Period, less the sum of (x) the amount of Principal Proceeds reinvested in substitute Collateral Assets during such Due Period and (y) any Sale Proceeds from Credit Risk Obligations and any Unscheduled Principal Payments in whole received during the related Due Period which the Issuer has retained for reinvestment during the following Due Period; and (ii) the sum of (A) the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to or maintain it at 107.6%, subject to the Minimum Class A Adjusted Overcollateralization, *plus* (B) the amount necessary to increase the Class B Adjusted Overcollateralization Ratio to or maintain it at 104.3%, subject to the Minimum Class B Adjusted Overcollateralization, *plus* (C) an amount necessary to pay the Class C Notes in full; *provided, however*, that (x) if the then long term Actual Rating assigned to a Class of Notes by any Rating Agency originally rating such Notes is lower than the long term rating originally assigned thereto by such Rating Agency by at least one sub-category, principal that would be allocated to any Class of Notes subordinate to such downgraded Class of Notes will be paid to such downgraded Notes until the earlier to occur of (a) the reinstatement of the original long term ratings on such downgraded Notes and (b) the payment in full of such downgraded Notes, and (y) if, on or after any Payment Date on which the Class B Notes would or did receive payment of principal under this clause (12), any of the Coverage Tests would not be satisfied or were not satisfied on any Determination Date after the Class B Notes have received or would receive payments of principal under this clause (12), then only the amount described in sub-clause (i) of this

clause (12) will be paid, such amount to be allocated, *first*, *pro rata*, (1) to the payment of principal of all outstanding Class A-1LT-a Notes, (2) to the payment of principal of all outstanding Class A-1LT-b Notes, and (3) to the payment to the CP Principal Reserve Account in an amount equal to the full amount of the CP Principal Reserve Required Amount, *second*, to the payment of principal of all outstanding Class A-2 Notes, *third*, to the payment of principal of all outstanding Class B Notes, and *fourth*, to the payment of principal of all outstanding Class C Notes;

(13) to the payment of principal of the Class C Notes in an amount equal to that portion of the principal of the Class C Notes comprised of Class C Deferred Interest unpaid after giving effect to payments under the prior clause (amounts will be considered unpaid for this purpose if the principal balance of the Class C Notes after giving effect to the prior clause exceeds any previous lowest amount outstanding);

(14) to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and Class D Deferred Interest and any interest thereon);

(15) to the payment of principal of the Class D Notes in an amount equal to the Class D Notes Amortizing Principal Amount;

(16) on or after the second Payment Date after the last day of the Reinvestment Period (and on the first such Payment Date with respect to any Principal Proceeds which have not been invested in Collateral Assets on or prior to the last day of the Reinvestment Period), to the payment of principal of the Class D Notes in an amount equal to Principal Proceeds received during the related Due Period, less the sum of (x) the amount of Principal Proceeds reinvested in substitute Collateral Assets during such Due Period, (y) any Sale Proceeds from Credit Risk Obligations and any Unscheduled Principal Payments in whole received during the related Due Period which the Issuer has retained for reinvestment during the following Due Period, and (z) the sum of payments made under clause (12) above;

(17) on or after the Payment Date occurring in October 2014, *first*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full and *second*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

(18) to the payment of any Defaulted Hedge Termination Payments;

(19) *first*, (a) to the payment, *pro rata*, of any remaining accrued and unpaid Administrative Expenses of the Issuers not paid pursuant to clauses (2) and (3) above (as the result of the limitations on amounts set forth therein) excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment, *pro rata*, of any indemnities (and legal expenses related thereto) payable by the Issuers not paid pursuant to clause (3) above (as the result of the limitation on amounts set forth therein); and *third*, (c) to the Expense Reserve Account until the balance of such account reaches $275,000 (after giving effect to any deposits made therein on such Payment Date under clause (3) above); *provided, however*, that the aggregate payments pursuant to subclause (c) of this clause (19) and subclause (c) of clause (3) on any Payment Date shall not exceed $25,000;

(20) *first*, to the payment to the Collateral Manager of accrued and unpaid Debt Subordinate Collateral Management Fee and *second*, to the payment to the Collateral Manager of any accrued interest on the unpaid Debt Subordinate Collateral Management Fee at a rate equal to LIBOR *plus* 1.0% per annum;

(21) on the Payment Date in October 2004 only, to the Cashflow Swap Counterparty an amount up to the then outstanding Swap Balance under the Cashflow Swap Agreement;

(22) to the Class E Share Paying Agent, for deposit into the Class E Share Payment Account for the Holders of the Class E Shares, the amount necessary for the Class E Shares to achieve an Internal Rate of Return of 10%;

(23) to the payment to the Collateral Manager of the Class E Shares Subordinate Collateral Management Fee; and

(24) to the Class E Share Paying Agent, any remaining amount for deposit into the Class E Share Payment Account for the Holders of the Class E Shares.

On or prior to the Stated Maturity of the Class D Notes, the Issuer (or the Collateral Manager acting pursuant to the Collateral Management Agreement on behalf of the Issuer) will liquidate any remaining Collateral Assets, Eligible Investments, the Put Agreement, the Hedge Agreements and any other items comprising the Collateral and deposit the proceeds thereof in the Collection Account. The net proceeds of such liquidation and all available cash (other than the U.S.$250 of capital contributed by the owners of the Issuer Ordinary Shares in accordance with the Issuer's Memorandum and Articles of Association and U.S.$250 representing a transaction fee to the Issuer) will be distributed in accordance with the Priority of Payments whereupon all of the Notes will be canceled.

On an Exception Payment Date or Redemption Date, as applicable, amounts in the Payment Account will be applied by the Trustee in the Priority of Payments for Exception Payment Dates and Redemption Dates set forth below:

(1) to the payment of the amounts referred to in clauses (1) through (6) of the Priority of Payments for Payment Dates which are not Exception Payment Dates or Redemption Dates, in that order (without regard to the limitations in clause (3); *provided* that no deposit shall be made to the Expense Reserve Account pursuant to subclause (3)(c)) and no deposit shall be made to the CP Interest Reserve Account pursuant to clause (4);

(2) *first, pro rata,* to the payment to the Class A-1LT-a Notes, the Class A-1LT-b Notes and an amount equal to the CP Principal Reserve Amount and *second,* the Class A-2 Notes, in each case, the amount necessary to pay the outstanding principal amounts of such Notes, to redeem and Defease the LIBOR CP Notes in full and to Defease the other CP Notes in full;

(3) to the payment to the Class B Notes, the amount necessary to pay the outstanding principal amount of such Notes in full;

(4) to the payment to the Class C Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

(5) to the payment to the Class D Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

(6) to the payment of the amounts referred to in clause (18) of the Priority of Payments for Payment Dates that are not Exception Payment Dates or Redemption Dates; and

(7) to the payment of the amounts referred to in clauses (19), (20), (21), (22) and (23) of the Priority of Payments for Payment Dates which are not Exception Payment Dates or Redemption Dates, in that order, to the extent not previously paid, treating all remaining funds as Principal Proceeds (*provided* that no deposit shall be made to the Expense Reserve Account pursuant to subclause (19)(c)).

Class E Shares

The final distribution on the Class E Shares will be made by the Issuer on the Scheduled Class E Shares Redemption Date, unless redeemed prior thereto in accordance with the Priority of Payments.

The Indenture and the Class E Shares Paying and Transfer Agency Agreement

The following summary describes certain provisions of the Indenture and the Class E Shares Paying and Transfer Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Class E Shares Paying and Transfer Agency Agreement.

Indenture

Events of Default. An "Event of Default" under the Indenture includes:

(i) a default in the payment, when due and payable, of any CP Note Interest or interest on any Class A Note or Class B Note or, if there are no Class A Notes, CP Notes or Class B Notes outstanding, any Class C Note or, if there are no Class A Notes, CP Notes, Class B Notes or Class C Notes outstanding, any Class D Notes, which default continues for a period of 7 days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, the Securities Intermediary, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made aware of such administrative error or omission);

(ii) a default in the payment of principal due on any Note at its Stated Maturity or on any Redemption Date or default in payment of the CP Face Amount of any CP Note at its Stated Maturity or on any Redemption Date (or, in the case of a default resulting solely from an administrative error or omission by the Trustee, the Securities Intermediary, any Note Paying Agent or the Note Registrar, the continuation of such default for a period of 7 days after the Trustee is made aware of such administrative error or omission);

(iii) the failure on any Payment Date to disburse amounts (except as provided in paragraphs (i) and (ii) above) available in the Payment Account in excess of $500 and a continuation of such failure for a period of 7 days after such failure has been recognized;

(iv) a circumstance in which either of the Issuers or the Collateral or any portion thereof becomes an investment company required to be registered under the Investment Company Act;

(v) a default, in any material respect (as determined by at least 50% in aggregate principal amount of the Controlling Class), in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (it being understood that a failure to satisfy a Collateral Quality Test, a Collateral Profile Test or a Coverage Test or any of the Reinvestment Criteria is not a default or breach) or in any certificate or writing delivered pursuant to the Indenture, or if any representation or warranty of the Issuers made in the Indenture or in any certificate or writing delivered pursuant thereto proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days after notice thereof shall have been given to the Issuers and the Collateral Manager by the Trustee or to the Issuers, the Collateral Manager and the Trustee by at least 50% in aggregate outstanding principal amount of the Controlling Class; and

(vi) certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers.

If an Event of Default should occur and be continuing, the Trustee may and will at the direction of the Holders of a Majority of the Controlling Class declare the principal of and accrued and unpaid interest on all Notes, the LIBOR CP Notes and the CP Face Amount of the CP Notes (other than the LIBOR CP

Notes) to be immediately due and payable (except that in the case of an Event of Default described in clause (vi) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Noteholder).

The "Controlling Class" will be the Class A Notes and the Put Counterparty (for so long as the Put Agreement is in effect) voting in the amount of the then outstanding aggregate face amount of the CP Notes (voting together as a single class), for so long as any Class A Notes or CP Notes are outstanding; if no Class A Notes or CP Notes are outstanding, then the Class B Notes, so long as any Class B Notes are outstanding; if no Class A Notes, CP Notes or Class B Notes are outstanding, then the Class C Notes, so long as any Class C Notes are outstanding; and if no Class A Notes, CP Notes, Class B Notes or Class C Notes are outstanding, then the Class D Notes, so long as any Class D Notes are outstanding. For purposes of any vote by the Class A Notes as the Controlling Class, the Trustee will provide the Put Counterparty with notice of such vote. Each Class of Notes having the same Stated Maturity and same priority, and the Class E Shares as a single class, is referred to herein as a "Class."

The "Holder" or "Noteholder" shall mean, with respect to any Note or CP Note, the person in whose name such Note or CP Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under this Indenture, with respect to any Notes in global form shall mean the beneficial owner thereof, with respect to the CP Notes shall mean the Put Counterparty (for so long as the Put Agreement is in effect) and with respect to any Class E Share shall mean the person in whose name such Class E Share is registered in the share register of the Issuer.

If an Event of Default should occur and be continuing, the Trustee is required to retain the Collateral securing the Notes and the CP Notes intact, collect and cause the collection of all payments in respect of the Collateral and make and apply all payments and deposits and maintain all accounts in respect of the Collateral and the Notes and the CP Notes in the manner described under the Priority of Payments unless (a) the Trustee determines (which determination may be based upon a certificate from the Collateral Manager as to the estimated proceeds) that the anticipated proceeds of a sale or liquidation of the Collateral based upon an estimate (which estimate takes into account the time elapsed between such estimate and the anticipated date of sale of the Collateral) obtained from an independent nationally recognized investment banking firm engaged by the Trustee (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to discharge in full the amounts then due and unpaid on the Notes and the CP Notes for (i) the principal, discount and interest (including any Class C Deferred Interest, Class D Deferred Interest, and all Defaulted Interest thereon), as applicable; (ii) the Rated Stated Amount of the Class E Shares; (iii) all unpaid Administrative Expenses; (iv) all amounts payable by the Issuer to any Hedge Counterparty (including any applicable termination payments), the Put Counterparty and each CP Note Placement Agent net of all amounts payable to the Issuer by any Hedge Counterparty, the Put Counterparty and each CP Note Placement Agent; and (v) all other items in the Priority of Payments ranking prior to payments on the Notes and the CP Notes and the Holders of a Majority of the Controlling Class agree with such determination or (b) the Holders of at least 66-2/3% of the aggregate principal amount of the Controlling Class along with each Hedge Counterparty (unless any such Hedge Counterparty will be paid in full the amounts due to it, including any applicable termination payments at the time of distribution of the proceeds of any sale and liquidation of the Collateral), the Put Counterparty (unless the Put Agreement has expired by its terms) direct, subject to the provisions of the Indenture, the sale and liquidation of the Collateral.

The Holders of a Majority of the Controlling Class will have the right to direct the Trustee in writing in the conduct of any proceedings or in the sale of any or all of the Collateral, but only if (i) such direction will not conflict with any rule of law or the Indenture (including the limitations described in the paragraph above) and (ii) the Trustee determines that such action will not involve it in liability (unless the Trustee has received an indemnity which is reasonably acceptable to the Trustee against any such liability).

Prior to the time a judgment or decree for payment of money due has been obtained by the Trustee, the Holders of a Majority of the Controlling Class may on behalf of the Holders of all the Notes and the CP Notes waive any past default and its consequences with respect to the Notes and the CP

Notes, except (a) a default in the payment of principal of or interest or discount on any Note or CP Note; (b) certain events of bankruptcy or insolvency with respect to the Issuers; or (c) a default in respect of a covenant or provision of the Indenture that cannot be modified or amended without the waiver or consent of the Holder of each outstanding Note adversely affected thereby; *provided, however*, that (i) any rescission and annulment of a declaration of acceleration of maturity of the Notes and CP Notes shall be governed by the Indenture and (ii) no such rescission and annulment shall affect the right of the Put Counterparty to terminate the Put Agreement.

Furthermore, any declaration of acceleration of maturity of the Notes and the CP Notes may be revoked and annulled by the Holders of a Majority of the Controlling Class before a judgment or decree for the payment of money has been obtained by the Trustee or the Collateral has been sold or foreclosed in whole or in part, by notice to the Issuers and the Trustee, if (a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay, in accordance with the Priority of Payments, all overdue installments of principal, discount and accrued interest (including all Defaulted Interest and the interest thereon) with respect to the outstanding Notes and CP Notes and any other administrative expenses, fees or other amounts that, under the Transaction Documents and pursuant to the Priority of Payments, are payable prior to the payment of the principal of and interest and discount on the outstanding Notes and CP Notes and (b) the Trustee has determined that all Events of Default, other than the non-payment of the interest or discount on or principal of the outstanding Notes that have become due solely by such acceleration, have been cured and the Holders of a Majority of the Controlling Class by notice to the Trustee have agreed with such determination (which agreement shall not be unreasonably withheld) or waived such Event of Default in accordance with the provisions set forth in the Indenture *provided, however*, that no such revocation or annulment shall effect the right of the Put Counterparty to terminate the Put Agreement.

Only the Trustee may pursue the remedies available under the Indenture and the Notes or CP Notes, and no Holder of a Note or CP Note will have the right to institute any proceeding with respect to the Indenture, its Note, CP Note or otherwise unless (i) such Holder previously has given to the Trustee written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal or interest, the Holders of at least 25%, by aggregate outstanding principal amount, of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee an indemnity which is reasonably acceptable to the Trustee; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) direction inconsistent with such written request has been given to the Trustee during such 30-day period by the Holders of a Majority of the Controlling Class.

In determining whether the Holders of the requisite percentage of Notes have given any direction, notice or consent, Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding. In addition, Holders of Class E Shares will not be considered to be affiliates of the Issuer or Co-Issuer by virtue of such ownership of Class E Shares.

Notices. Notices to the Holders of the Notes shall be given by first class mail, postage prepaid, to each Noteholder at the address appearing in the applicable note register. In addition, for so long as any of the Notes are listed on any stock exchange and so long as the rules of such exchange so require, notices to the Holders of such Notes shall also be published in the official list thereof.

Modification of the Indenture. Except as otherwise provided below, with the written consent of (a) the Holders of at least 66-2/3%, by Aggregate Outstanding Amount, of each Class of Notes and the CP Notes (with the Class A Notes, the CP Notes and the Class B Notes voting together as a single class and with the Class C Notes and the Class D Notes voting together as a single class) materially and adversely affected thereby and (b) the Holders of at least 66-2/3% of the Class E Shares materially and adversely affected thereby, the Trustee and the Issuers may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of such Class or Class E Share and the CP Noteholders; *provided* that the Rating Agency Condition is satisfied in respect of such addition, change or elimination. The Trustee may, consistent with

the written advice of legal counsel, at the expense of the Issuer, determine whether or not the Holders of Notes, CP Notes or Class E Shares would be affected by such change (after giving notice of such change to the Holders of Notes, CP Notes and Class E Shares). Such determination shall be conclusive and binding on any future Holders.

Without the written consent of (a) 100% of the Holders of each adversely affected Class of Notes, the CP Notes and the Put Counterparty if the principal amount of Class A-1LT-b Notes is $0 and such Notes are adversely affected thereby and the Put Agreement has not expired (with the Holders of the Class A Notes and the CP Notes voting together as a single Class) and (b) 100% of the Holders of Class E Shares adversely affected, and unless the Rating Agency Condition is satisfied, no supplemental indenture may (i) change the Stated Maturity of the principal of or the due date of any installment of interest, discount or additional distributions on a Note, CP Note or Class E Share; reduce the principal amount thereof or the rate of interest or discount thereon, or the applicable Optional Redemption Price, Tax Redemption Price or Auction Redemption Price with respect thereto; change the earliest date on which a Note or a CP Note may be redeemed or Defeased, as applicable; change the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest or discount on the Notes or the CP Notes or the Rated Stated Amount or dividends on the Class E Shares or change any place where, or the coin or currency in which any amounts due to the Notes, CP Notes or Class E Shares are payable; or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or other due date thereof (or, in the case of redemption, on or after the Redemption Date); (ii) reduce the percentage in aggregate principal amount of Holders of each Class, the Put Counterparty or Holders of the Class E Shares whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences; (iii) impair or adversely affect the Collateral except as otherwise permitted by the Indenture; (iv) permit the creation of any security interest ranking prior to or on a parity with the security interest created by the Indenture with respect to any part of the Collateral (it being understood that the addition of Synthetic Security Counterparties, Hedge Counterparties, any replacement Put Counterparty or any replacement Securities Lending Counterparties does not require consent under this clause (iv)) or terminate such security interest on any property at any time subject thereto or deprive the Holder of any Note, CP Note or Class E Share, the Trustee, the CP Issuing and Paying Agent or any other Secured Party of the security afforded by the lien of the Indenture; (v) reduce the percentage of Holders of the Notes of each Class, the CP Notes, the Put Counterparty or the Holders of Class E Shares whose consent is required to request the Trustee to preserve the Collateral or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture; (vi) modify any of the provisions of the Indenture with respect to supplemental indentures except to increase the percentage of outstanding Notes, CP Notes or Class E Shares whose Holders' (or, in the case of the CP Notes, the Put Counterparty's) consent is required for any such action or to increase the percentage of outstanding Notes, CP Notes or Class E Shares whose Holder's (or, in the case of the CP Notes, the Put Counterparty's) consent is required to modify or waive other provisions of the Indenture; (vii) modify the definition of the term "Outstanding" or the Priority of Payments set forth in the Indenture; (viii) modify any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest or discount on or principal of any then outstanding Note or CP Note or any payment of the Rated Stated Amount of or dividends on the Class E Shares or to affect the right of the Holders of the Notes, the CP Notes or the Class E Shares, the Put Counterparty or the Trustee to the benefit of any provisions for the redemption of such Notes, CP Notes or Class E Shares contained therein or in the Class E Shares Paying and Transfer Agency Agreement; (ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated by the Indenture relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the United States Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively; (x) increase the amount of the Collateral Management Fees payable to the Collateral Manager beyond the amount provided for in the original

Collateral Management Agreement (except as permitted by the terms of the Collateral Management Agreement in the context of the appointment of a successor Collateral Manager); (xi) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated thereby that provides that the obligations of the Issuer or the Co-Issuer, as the case may be, are limited recourse obligations of the Issuer or the Co-Issuer, respectively, payable solely from the Collateral in accordance with the terms of the Indenture; (xii) at the time of the execution of such supplemental indenture, cause the Issuer, any Hedge Counterparty, the Put Counterparty, the Collateral Manager or any Paying Agent to become subject to withholding or other taxes, fees or assessments or cause the Issuer to be treated as engaged in a United States trade or business or otherwise be subject to United States federal, state or local income tax on a net income basis or (xiii) at the time of the execution of such supplemental indenture, result in a deemed sale or exchange of any of the Notes under Section 1001 of the Code (items (i) through (xiii) above collectively, the "Reserved Matters").

Notwithstanding the foregoing, the Glossary of Defined Terms attached as Schedule A-1 to the Indenture is considered to be part of the Indenture and may only be amended in accordance with the procedures required to amend the Indenture.

Except as provided above, the Issuers and the Trustee may enter into one or more supplemental indentures, without obtaining the consent of Holders of the Notes, the CP Notes or the Class E Shares, but with satisfaction of the Rating Agency Condition, (i) if such supplemental indentures would have no material adverse effect on any of the Noteholders, the CP Noteholders or the Holders of the Class E Shares (as evidenced by an Opinion of Counsel or officer's certificate delivered by the Issuer (or the Collateral Manager on behalf of the Issuer) to the Trustee) or (ii) for any of the following purposes: (a) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Class E Shares and the Indenture; (b) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Notes, the CP Notes or the Class E Shares or to surrender any right or power conferred upon the Issuers; (c) to convey, transfer, assign, mortgage or pledge any property to the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Notes or Class E Shares; (d) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee; (e) to provide for the issuance of additional Notes to the extent permitted under the Indenture; (f) to correct or amplify the description of any property at any time subject to the security interest created by the Indenture, or to better assure, convey, and confirm unto the Trustee any property subject or required to be subject to the security interest created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or subject to the security interest created by the Indenture any additional property; (g) to cure any ambiguity or manifest error or correct or supplement any provisions contained in the Indenture which may be defective or inconsistent with any provision contained in the Indenture or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error; (h) to take any action necessary or advisable to prevent the Issuer, the Trustee, any Note Paying Agents, the Class E Share Paying Agent or the Put Counterparty from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis; (i) to conform the Indenture to the descriptions contained in the Offering Circular; (j) to comply with any reasonable requests made by any stock exchange in order to list or maintain the listing of any Notes or Class E Shares on such stock exchange; or (k) to facilitate the issuance of the CP Notes and the maintenance of the Issuer's CP Note program. The Issuer will not consent to any modification of any Transaction Document (other than the Indenture and the Class E Shares Paying and Transfer Agreement) and, in the case of the Memorandum and Articles of Association of the Issuer, shall procure that its shareholders shall not so consent, unless the Rating Agency Condition has been satisfied with respect to the modification of such Transaction Document if the Rating Agency Condition is required to be satisfied with respect to any such modification of such Transaction Document. In determining whether or not the Holders of the Notes, the CP Notes and the Class E Shares would be materially adversely affected by any such change, the

Trustee (after giving notice of such change to such Holders of Notes and Holders of Class E Shares) may rely upon an opinion of counsel (prepared at the expense of Issuer) as to whether or not the Holders of the Notes, CP Notes and Class E Shares would be materially adversely affected by such change and such determination shall be binding on all present and future Holders.

The Issuer will not consent to or enter into any supplemental indenture or any amendment to any other document related thereto that (i) modifies provisions related to the bankruptcy or insolvency of the Issuers, (ii) modifies provisions stating that the obligations of the Issuers are limited recourse obligations of the Issuers payable solely from the Collateral in accordance with the terms of the Indenture or (iii) modifies the defined terms contained in the Indenture unless such modification shall also have been approved by the Co-Issuer and the Trustee. In addition, the Issuer will not, without the consent of the Put Counterparty, Hedge Counterparties and the CP Note Placement Agents adversely affected thereby (such consents not to be unreasonably withheld or delayed) consent to or enter into any supplemental indenture or any amendment to any other document related thereto that amends any provision of the Indenture to change the Priority of Payments with regard to payment of fees or expenses to the Put Counterparty, any Hedge Counterparty or any CP Note Placement Agent, any consent rights of the Put Counterparty, any Hedge Counterparty or the CP Note Placement Agents or any right of the Put Counterparty, any Hedge Counterparty or the CP Note Placement Agents to receive any notices pursuant to the Indenture. The Issuers will not consent to any supplemental indenture that would have a material adverse effect on the Hedge Counterparty, the Put Counterparty or the CP Note Placement Agents without the prior written consent of such Hedge Counterparty (as required in accordance with the Hedge Agreements), Put Counterparty or CP Note Placement Agent materially and adversely affected, as applicable, which consent shall not be unreasonably withheld or delayed.

Any amendment to the Indenture will not be effective until the Collateral Manager has received written notice of such amendment, has consented in writing to the terms of the proposed amendment and has received a copy of the final version from the Issuer or the Trustee.

Under the Indenture, the Trustee will, for so long as the Securities are outstanding and rated by the Rating Agencies, mail a copy of any proposed supplemental indenture (whether or not required to be approved by the Holders of any Notes, CP Notes or Class E Shares) to the Rating Agencies, the Put Counterparty, the CP Issuing and Paying Agent and each Hedge Counterparty not later than 15 days prior to the execution of such proposed supplemental indenture (or such shorter period prior to the execution of such proposed supplemental indenture as each of the Rating Agencies, the CP Issuing and Paying Agent, the Put Counterparty and each Hedge Counterparty shall consent to, or otherwise agree is sufficient). Any supplemental indenture must also satisfy the Rating Agency Condition. The Trustee must provide notice of any amendment or modification of the Indenture (whether or not required to be approved by the Holders of any Notes, CP Notes or Class E Shares) to the Holders of the Notes, CP Notes and Class E Shares, each Hedge Counterparty, the Put Counterparty, the CP Issuing and Paying Agent, each Securities Lending Counterparty and, for so long as any Notes or Class E Shares are listed on any stock exchange, the Listing and Paying Agent, promptly upon the execution of such supplemental indenture.

It shall not be necessary for the Holders of any Notes, CP Notes or Class E Shares to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Holders approve the substance thereof.

In connection with any amendment, the Trustee may require the delivery of an opinion of counsel or an officer's certificate delivered by the Issuer (or the Collateral Manager on behalf of the Issuer) reasonably satisfactory to it, at the expense of the Issuer, that such supplemental indenture, amendment or modification is permitted under the terms of the Indenture. Such determination shall be conclusive and binding on all present and future Holders of Notes, CP Notes or Class E Shares.

Additional Issuance. The Indenture will provide that during the Reinvestment Period the Issuers may issue and sell additional notes of all existing Classes of Notes, CP Notes (in addition to any CP Notes then outstanding or issued to replace maturing CP Notes) and Class E Shares and the Issuer will

use the proceeds to purchase additional Collateral Assets and, if applicable and subject to the conditions described herein, enter into additional Hedge Agreements in connection with the Issuer's issuance of and making payments on, the Notes and ownership and disposition of the Collateral Assets*; provided*, that the following conditions are satisfied: (i) such additional issuances may not exceed 100% in the aggregate of the principal amount of the currently outstanding Class A-1LT-a Notes and the currently outstanding Class A-1LT-b Notes and 100% in the aggregate face amount of the CP Notes currently outstanding (aggregated as a single class), 100% in the aggregate of the original principal amount of each other applicable Class of Notes and, in the case of the Class E Shares, 100% of the aggregate of the Stated Amount issued and outstanding on the Closing Date; such additional notes or shares must be issued for a cash sales price (the net sale proceeds to be invested in Collateral Assets or, pending such investment, deposited in the Collection Account and invested in Eligible Investments); additional CP Notes, Class A-1LT-a Notes and Class A-1LT-b Notes (in the aggregate), and Notes of each other Class must be issued in a *pro rata* amount (based on the then aggregate outstanding principal amount of the Class A-1LT-a Notes and the Class A-1LT-b Notes and the aggregate outstanding face amount of the CP Notes (aggregated as a single class), each other Class of Notes and, in the case of the Class E Shares, 100% of the aggregate of the Stated Amount issued and outstanding on the Closing Date); and the terms (other than the date of issuance, the issue price, the date from which interest will accrue and, in the case of the Class A-1LT-a Notes and the Class A-1LT-b Notes only, the interest rate and current margin over LIBOR thereon) of such Notes must be identical to the terms of the Notes of the Class of which such Notes are a part, or, in the case of the CP Notes, the terms (other than the date of issuance, the maturity, the issue price and (if applicable) the interest rate and the date from which interest will accrue) of such CP Notes must be identical to the terms of the originally issued CP Notes and the terms (other than the date of issuance and the issue price) of such Class E Shares must be identical to the terms of the originally issued Class E Shares; (ii) the ratings on each Class of Notes must at such time be no lower than the original long term ratings assigned on the Closing Date and the Rating Agency Condition must have been satisfied; (iii)(a) the Holders of the Class A Notes and the Class B Notes shall have been provided notice in writing 30 days prior to such issuance and the Holders of a SuperMajority of such Notes, voting together as a single class, shall have consented to such issuance, (b) the Holders of the Class C Notes and the Class D Notes shall have been provided notice in writing 30 days prior to such issuance and the Holders of a SuperMajority of such Notes, voting together as a single class, shall have consented to such issuance, and (c) the Holders of the Class E Shares shall have been provided notice in writing 30 days prior to such issuance and the Holders of a SuperMajority of the Class E Shares shall have consented to such issuance; (iv) the Holders of the Class E Shares shall have been provided notice in writing 30 days prior to such issuance and shall have been afforded the first opportunity to purchase additional Class E Shares in an amount at least equal to the percentage of the outstanding Class E Shares each Holder held immediately prior to such issuance of such additional Class E Shares and on the same terms offered to investors generally; (v) the Collateral Manager shall have consented to such additional issuance; (vi) the Put Counterparty and the Hedge Counterparties have been provided notice in writing 30 days prior to such issuance and shall have consented to such issuance (which consents shall not be unreasonably withheld); and (vii) an opinion of counsel must be delivered to the Trustee to the effect that none of the Issuer, the Co-Issuer or the pool of Collateral (or any part thereof) will be required, as a result of such issuance, to be registered as an investment company under the Investment Company Act, and that (a) such additional issuance will not result in the Issuer becoming subject to U.S. federal income taxation with respect to its net income, (b) such additional issuance would not cause Holders of the Notes previously issued to be deemed to have sold or exchanged such Notes under Section 1001 of the Code, (c) any such additional CP Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Shares shall be accorded the same tax characterization for U.S. federal income tax purposes as the original CP Notes, Notes and Class E Shares and (d) any such additional CP Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Shares, respectively, will be part of the same issue as the original CP Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Shares, respectively, for purposes of Sections 1271 through 1275 of the Code.

The proceeds of any additional issuance that are not used on the date of such issuance to purchase Collateral Assets will be deposited into the Collection Account.

Jurisdiction of Incorporation and Formation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company incorporated under the laws of the Cayman Islands and a corporation formed under laws of the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Notes or any of the Collateral; *provided, however,* that the Issuers shall be entitled to change their jurisdictions of incorporation from the Cayman Islands or Delaware, as applicable, to any other jurisdiction reasonably selected by such Issuer or Co-Issuer, as applicable, and approved by its common shareholders in the case of the Issuer or its members in the case of the Co-Issuer, so long as (i) the Issuer or Co-Issuer, as applicable, does not believe such change is disadvantageous in any material respect to such entity or the Holders of any Class of Notes or Class E Shares or the Put Counterparty or any Hedge Counterparty; (ii) written notice of such change shall have been given by such entity to the Trustee, the Note Paying Agent, the Put Counterparty, the Collateral Manager, each Hedge Counterparty, the Holders of each Class of Notes, the Holders of the CP Notes and each of the Rating Agencies at least thirty (30) Business Days prior to such change of jurisdiction; and (iii) on or prior to the 25th Business Day following such notice the Trustee shall not have received written notice from Holders of a Majority of the Controlling Class, the Holders of a Majority of the Class E Shares, the Put Counterparty or any Hedge Counterparty (*provided* that if no objection is received by the Trustee from a Hedge Counterparty or the Put Counterparty by the twenty-fifth (25th) Business Day, such consent shall be deemed to have been given) objecting to such change.

Petitions for Bankruptcy. The Indenture will provide that neither (i) the Put Counterparty, the Hedge Counterparty, the Paying Agents, the Note Registrar, or the Trustee, in its own capacity, or on behalf of any Noteholder or the Holders of the CP Notes, as applicable, nor (ii) the Noteholders may, prior to the date which is one year and one day (or, if longer, the applicable preference period then in effect) after the payment in full of all Notes, institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium, liquidation or similar proceedings under the laws of any jurisdiction.

Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Collateral securing the Notes and the CP Notes upon delivery to the Note Paying Agent for cancellation all of the Notes and the CP Notes, as applicable, or, within certain limitations (including the obligation to pay principal, discount and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

Trustee. JPMorgan Chase Bank will be the Trustee under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Notes is solely the obligation of the Issuers. The Trustee and/or its affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. The Trustee will not be bound to take any action unless indemnified for such action. The Noteholders shall together have the power, exercisable by Extraordinary Resolution and with the consent of a Majority of the Holders of the Class E Shares, to remove the Trustee as set forth in the Indenture. The removal of the Trustee shall not become effective until the acceptance of appointment by a successor trustee. If the Trustee is removed without cause, costs and expenses of the Trustee incurred in connection with the transfer to the successor Trustee shall be paid by the successor Trustee or the Issuer.

Agents. Goldman, Sachs & Co. and any other person who enters into a CP Note Placement Agreement with the Issuer will be the initial CP Note Placement Agents ("CP Note Placement Agents") under the CP Placement Agreements. JPMorgan Chase Bank will be the Note Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Authenticating Agent under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with JPMorgan Chase Bank. The payment of the fees and expenses of JPMorgan Chase Bank relating to the Notes and the CP Notes is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of JPMorgan Chase Bank for any loss, liability or expense incurred without gross negligence, willful misconduct, default or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture.

Listing and Paying Agent. For so long as any Class of Notes is listed on any stock exchange and the rules of such exchange shall so require, the Issuer will have a listing agent and a paying agent (which shall be the "Listing and Paying Agent") for the Securities. The Issuers and their affiliates may maintain other relationships in the ordinary course of business with the Listing and Paying Agent. The payment of the fees and expenses of the Listing and Paying Agent relating to the Securities is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of the Listing and Paying Agent for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on their respective parts arising out of or in connection with the acceptance or administration of the Indenture.

Status of the Class E Shares. The Holders of the Class E Shares will have certain rights to vote with respect to limited matters arising under the Indenture and the Collateral Management Agreement including, without limitation, in connection with certain modifications to the Indenture. However, the Holders of the Class E Shares will have no right to vote in connection with the realization of the Collateral or certain other matters under the Indenture.

Class E Shares Paying and Transfer Agency Agreement

Pursuant to the Class E Shares Paying and Transfer Agency Agreement, the Class E Share Paying Agent and the Class E Share Transfer Agent will perform various fiscal services on behalf of the Holders of the Class E Shares. The payment of the fees and expenses of the Class E Share Paying Agent and Class E Share Transfer Agent is solely the obligation of the Issuer. The Class E Shares Paying and Transfer Agency Agreement contains provisions for the indemnification of the Class E Share Paying Agent and Class E Share Transfer Agent for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Class E Shares Paying and Transfer Agency Agreement.

Consolidation, Merger or Transfer of Assets. The Holders of the Class E Shares, as a condition to acquiring the Class E Shares, and the Share Trustee, as a condition to acquiring the Issuer Ordinary Shares, will be required to covenant that, except under the limited circumstances set forth in the Indenture and the declaration of trust made by the Share Trustee in respect of the Issuer Ordinary Shares, they will not permit the Issuer to consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or other entity. The Issuer, as a condition to acquiring the common equity of the Co-Issuer, will be required to covenant that, except under the limited circumstances set forth in the Indenture, it will not permit the Co-Issuer to consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other limited liability company, corporation, partnership, trust or other person or other entity.

Governing Law of the Indenture, the Notes and the Class E Shares Paying and Transfer Agency Agreement

The Indenture, the Notes and the Class E Shares Paying and Transfer Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof. Under the Indenture and the Class E Shares Paying and Transfer Agency Agreement, the Issuers have

submitted irrevocably to the non-exclusive jurisdiction of the courts of the State of New York and the courts of the United States of America in the State of New York (in each case sitting in the County of New York) for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Indenture, the Notes and the Class E Shares Paying and Transfer Agency Agreement. The Class E Shares and additional Class E Shares, if any, will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Form of the Securities

The Notes. Each Class of Notes sold in reliance on Rule 144A under the Securities Act will be represented by one or more Rule 144A Global Notes and will be deposited with JPMorgan Chase Bank as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC. The Rule 144A Global Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by a Temporary Regulation S Global Note deposited on the Closing Date with JPMorgan Chase Bank as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream. Beneficial interests in a Temporary Regulation S Global Note will be exchanged for beneficial interests in a permanent Regulation S Global Note for the related Class of Notes in definitive, fully registered form upon the later of (i) the expiration of the Distribution Compliance Period (as defined below) and (ii) the first date on which the requisite certifications (in the form provided in the Indenture) are provided to the Trustee. The "Distribution Compliance Period" with respect to the Notes ends 40 days after the later of (i) the commencement of the offering of the Notes and (ii) the Closing Date. The Regulation S Global Note for each Class of Notes will be registered in the name of Cede & Co., a nominee of DTC, and deposited with JPMorgan Chase Bank as custodian for DTC for credit to the accounts of Euroclear and Clearstream for the respective accounts of the Holders of such Notes. Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

A beneficial interest in a Regulation S Global Note or a Temporary Regulation S Global Note may be transferred, whether before or after the expiration of the Distribution Compliance Period, to a U.S. person only in the form of a beneficial interest in a Rule 144A Global Note and only upon receipt by the Note Authenticating Agent of a written certification from the transferor (in the form provided in the Indenture) to the effect that the transfer is being made to a person the transferor reasonably believes is a Qualified Institutional Buyer and is a Qualified Purchaser. In addition, transfers of a beneficial interest in a Regulation S Global Note or Temporary Regulation S Global Note to a person who takes delivery in the form of an interest in a Rule 144A Global Note may occur only in denominations greater than or equal to the minimum denominations applicable to the Rule 144A Global Notes.

A beneficial interest in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Temporary Regulation S Global Note or a Regulation S Global Note, as the case may be, whether during or after the expiration of the Distribution Compliance Period, only upon receipt by the Note Registrar of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a non-U.S. Person in accordance with Rule 903 or 904 of Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to the person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such interest.

Except in the limited circumstances described below, owners of beneficial interests in any Global Note will not be entitled to receive physical delivery of certificated Notes. The Notes are not issuable in bearer form.

Each Note will be issued in minimum denominations of $250,000 (in the case of Rule 144A Notes) and $100,000 (in the case of Regulation S Notes) and integral multiples of $1 in excess thereof.

Global Notes. Upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Notes will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and such Notes. Unless DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered under the Exchange Act, owners of the beneficial interests in the Global Notes will not be entitled to have any portion of such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of Class A Notes in certificated form and will not be considered to be the owners or Holders of any Class A Notes under the Indenture. In addition, no beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in a Regulation S Global Note or a Temporary Regulation S Global Note directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations which are participants in these systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Notes and Temporary Regulation S Global Notes in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are participants in the system, or indirectly through organizations which are participants in the system.

Payments of the principal of and interest on the Global Notes will be made to DTC or its nominee, as the registered owner thereof. Neither the Issuers, the Trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for any notice permitted or required to be given to Holders of Notes or any consent given or actions taken by DTC as Holder of Notes. The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective interests in the principal amount of such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in

Global Notes to these persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Notes to pledge its interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Temporary Regulation S Global Note or a Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Note settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Class A Notes (including the presentation of the applicable Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Note are credited and only in respect of that portion of the aggregate principal amount of the Class A Notes as to which the participant or participants has or have given direction.

The giving of notices and other communications by DTC to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Clearstream. Clearstream Banking, société anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks and may include the Initial Purchaser. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

The Euroclear System. The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including U.S. Dollars and Japanese Yen. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System plc, a U.K. corporation (the "Euroclear Clearance System"). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policy for the Euroclear System on behalf of Euroclear participating organizations. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchaser. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear Operator is a Belgian bank. The Belgian Banking Commission regulates and examines the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern: transfers of securities and cash within the Euroclear System; withdrawal of securities and cash from the Euroclear System; and receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participating organizations in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator and by Euroclear.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Notes and in the Rule 144A Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Payments; Certifications by Holders of Temporary Regulation S Global Notes. A Holder of a beneficial interest in a Temporary Regulation S Global Note must provide Clearstream or Euroclear, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in such Global Note is not a U.S. Person (as defined in Regulation S), and Clearstream or Euroclear, as the case may be, must provide to the Trustee a certificate in the form required by the Indenture prior to (i) the payment of interest or principal with respect to such Holder's beneficial interest in the Temporary Regulation S Global Note and (ii) any exchange of such beneficial interest for a beneficial interest in a Regulation S Global Note.

Individual Definitive Notes. The Notes will be initially issued in global form. If DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuers within ninety (90) days or as a result of any amendment to or change in, the laws or regulations of the Cayman Islands or the State of Delaware, as applicable, or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the Issuers or the Note Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form and the Issuers will issue individual definitive Notes in registered form in exchange for the Regulation S Global Notes and the Rule 144A Global Notes, as the case may be. Upon receipt of such notice from DTC, the Issuers will use their best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for individual definitive Notes and cause the requested individual definitive Notes to be executed and delivered to the Note Registrar in sufficient quantities and authenticated by or on behalf of the Note Authenticating Agent for delivery to Holders of the Notes. Persons exchanging interests in a Global Note for individual definitive Notes will be required to provide to the Note Authenticating Agent, through DTC, Clearstream or Euroclear, (i) written instructions and other information required by the Issuers and the Note Authenticating Agent to complete, execute and deliver such individual definitive Notes, (ii) in the case of an exchange of an interest in a Rule 144A Global Note, such certification as to Qualified Institutional Buyer status and that such Holder is a Qualified Purchaser, as the Issuers shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Note, such certification as the Issuers shall require as to non-U.S. Person status. In all cases, individual definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Global Notes, requested by DTC.

Individual definitive Notes will bear, and be subject to, such legend as the Issuers require in order to assure compliance with any applicable law. Individual definitive Notes will be transferable subject to the minimum denomination applicable to the Rule 144A Global Notes and Regulation S Global Notes, in whole or in part, and exchangeable for individual definitive Notes of the same Class at the office of the

Note Paying Agent, Note Authenticating Agent or the office of any transfer agent, upon compliance with the requirements set forth in the Indenture. Individual definitive Notes may be transferred through any transfer agent upon the delivery and duly completed assignment of such Notes. Upon transfer of any individual definitive Note in part, the Note Authenticating Agent will issue in exchange therefor to the transferee one or more individual definitive Notes in the amount being so transferred and will issue to the transferor one or more individual definitive Notes in the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual definitive Note may transfer such Note, subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, the Issuer will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual definitive Notes shall be payable by the Note Paying Agents by U.S. Dollar check drawn on a bank in the United States of America and sent by mail to the registered Holder thereof, by wire transfer in immediately available funds. In addition, for so long as any Notes are listed on any stock exchange and the rules of such exchange shall so require, in the case of a transfer or exchange of individual definitive Notes, a Holder thereof may effect such transfer or exchange by presenting such Notes at, and obtaining a new individual definitive Note from the office of the Listing and Paying Agent, in the case of a transfer of only a part of an individual definitive Note, a new individual definitive Note in respect of the balance of the principal amount of the individual definitive Note not transferred will be delivered at the office of applicable stock exchange, and in the case of a replacement of any lost, stolen, mutilated or destroyed individual definitive Notes, a Holder thereof may obtain a new individual definitive Note from the Listing and Paying Agent.

Class E Shares. The Class E Shares will be represented by one or more Class E Share Certificates in definitive form and will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Class E Shares may be transferred only upon receipt by the Issuer and Class E Share Transfer Agent of a Class E Shares Purchase and Transfer Letter, and a letter executed by the transferor of such Class E Shares, to the effect that the transfer is being made (i)(a) to a Qualified Institutional Buyer that has acquired an interest in the Class E Shares in a transaction meeting the requirements of Rule 144A, or (b) to an Accredited Investor having a net worth of not less than $10 million in a transaction exempt from registration under the Securities Act, who in the case of (a) is also a Qualified Purchaser and in the case of (b) is also a Qualified Purchaser, or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee must also make certain other representations applicable to such transferee, as set forth in the Class E Shares Purchase and Transfer Letter.

The Class E Shares will be issued in minimum lots of 250 and integral multiples of one Class E Share in excess thereof. Payments on the Class E Shares on any Payment Date will be made to the person in whose name the relevant Class E Share is registered in the share register as of the close of business on the first calendar day of the month in which such Payment Date occurs (or if such day is not a Business Day, the next succeeding Business Day).

A Holder of Class E Shares may, upon notice to the Class E Share Paying Agent, elect to forfeit the voting or consent rights specified in such notice of all or any portion of the Class E Shares owned by such Holder (an "Electing Class E Share Holder"). With respect to any matter as to which Holders of the Class E Shares may vote or consent and as to which any Electing Class E Share Holder has forfeited the right to consent in respect of any Class E Shares owned by it (the "Elected Class E Shares"), such Elected Class E Shares shall not be counted as outstanding in determining whether such matter has been

approved, consented to or adopted. Any such election may be rescinded in whole or in part at any time if such Electing Class E Share Holder determines that such rescission is consistent with applicable banking laws.

USE OF PROCEEDS

The net proceeds from and associated with the offering of the Securities and the CP Notes (including an initial payment to the Issuer from the Initial Interest Rate Swap Counterparty), after payment of applicable fees and expenses, are expected to equal approximately $1,519,000,000. On the Closing Date the Issuer will apply the net proceeds to purchase, or enter into agreements to purchase, a diversified portfolio of Collateral Assets which satisfy the Eligibility Criteria described herein with an aggregate Principal Balance of approximately $1,496,500,000 and with accrued interest of approximately $3,500,000 and will enter into one or more Hedge Agreements as the Collateral Manager may deem appropriate with proceeds of approximately $35,000,000. A portion of the proceeds will be used to deposit approximately $2,000,000 into the CP Interest Reserve Account. The remaining proceeds, constituting approximately $200,000, will be deposited in the Collection Account, invested in Eligible Investments and used to purchase additional Collateral Assets and to make initial deposits in the Expense Reserve Account and may be used to enter into additional Hedge Agreements, as necessary.

RATINGS

It is a condition to the issuance of the Notes that the Class A-1LT-a Notes, the Class A-1LT-b Notes and the Class A-2 Notes each be issued with a rating of "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A3" by Moody's and at least "A-" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Shares be issued with a rating of at least "Ba1" by Moody's as to the ultimate receipt of the Rated Stated Amount of the Class E Shares. The Moody's ratings of the Class E Shares do not address the receipt by the Holders of such Class E Shares of any amounts in excess of the Rated Stated Amount. The ratings of the Class A Notes and the Class B Notes address the likelihood of timely payment of principal of and interest on such Notes. The ratings of the Class C Notes and the Class D Notes address the likelihood of the ultimate payment of principal of and interest on such Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. If and so long as any of the Notes are listed on any stock exchange and the rules of such exchange so require, the Issuer will notify such stock exchange if any rating assigned to any Class of Notes is reduced or withdrawn.

Moody's

The long term ratings assigned to the Notes by Moody's are based upon its assessment of the probability that the Collateral Assets will provide sufficient funds to pay the rated portion of such Notes, based largely upon Moody's statistical analysis of historical default rates on debt obligations with various ratings, expected recovery rates on the Collateral Assets, the asset and interest coverage required for such Notes (which is achieved through the subordination of more junior Notes), and the diversification requirements that the Collateral Assets must satisfy.

Moody's rating of the Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents and Moody's rating of the Class E Shares addresses the ultimate receipt of cash distributions in an amount equal to their Rated Stated Amount. The Moody's rating of the Class E Shares does not address the receipt by the Holders of such Class E Shares of any amounts in excess of the Rated Stated Amount. Moody's ratings are based on the expected loss posed to the Holders of the Notes relative to the promise of receiving the present value, calculated using a discounted rate equal to the promised interest rate of such payments. Moody's

analyzes the likelihood that each debt obligation included in the portfolio will default, based on historical default rates for similar debt obligations, the historical volatility of such default rates (which increases as securities with lower ratings are added to the portfolio) and an additional default assumption to account for future fluctuations in defaults. Moody's then determines the level of credit protection necessary to achieve the expected loss associated with the rating of the structured securities, taking into account the potential recovery value of the Collateral Assets and the expected volatility of the default rate of the portfolio based on the level of diversification by issuer and industry.

In addition to these quantitative tests, Moody's ratings take into account qualitative features of a transaction, including the experience of the collateral manager, the legal structure and the risks associated with such structure, its view as to the quality of the participants in the transaction and other factors that it deems relevant.

S&P

S&P will rate the Notes in a manner similar to the manner in which it rates other structured issues. The ratings assigned to the Class A Notes and Class B Notes by S&P address the likelihood of the timely payment of interest and ultimate payment of principal by the Stated Maturity. The rating assigned to the Class C Notes and the Class D Notes by S&P addresses the likelihood of the ultimate payment of interest and principal on such Notes.

S&P's analysis includes the application of its proprietary default expectation computer model, the S&P CDO Monitor (which will be provided to the Collateral Manager), which is used to estimate the default rate the portfolio is likely to experience. The S&P CDO Monitor calculates the projected cumulative default rate of a pool of Collateral Assets consistent with a specified benchmark rating level based upon S&P's proprietary corporate debt default studies. The S&P CDO Monitor takes into consideration the rating of each issuer or obligor, the number of issuers or obligors, the issuer or obligor industry concentration and the remaining weighted average maturity of each of the Collateral Assets and Eligible Investments included in the portfolio. The risks posed by these variables are accounted for by effectively adjusting the necessary default level needed to achieve a desired rating. The higher the desired rating, the higher the level of defaults the portfolio must withstand.

Credit enhancement to support a particular rating is then provided based, in part, on the results of the S&P CDO Monitor, as well as other more qualitative considerations such as legal issues and management capabilities. Credit enhancement is typically provided by a combination of overcollateralization/subordination, cash collateral/reserve account, excess spread/interest and amortization. A transaction-specific cash flow model (the "Transaction-Specific Cash Flow Model") is used to evaluate the portfolio and determine whether it can withstand an estimated level of default while fully repaying the class of debt under consideration.

There can be no assurance that actual loss on the Collateral Assets will not exceed those assumed in the application of the S&P CDO Monitor or that recovery rates and the timing of recovery with respect thereto will not differ from those assumed in the Transaction-Specific Cash Flow Model. The Issuers make no representation as to the expected rate of defaults on the portfolio or as to the expected timing of any defaults that may occur.

S&P's rating of the Notes will be established under various assumptions and scenario analyses. There can be no assurance, and the Collateral Manager makes no representation, that actual defaults on the Collateral Assets will not exceed those in S&P's analysis, or that recovery rates with respect thereto (and, consequently, loss rates) will not differ from those in S&P's analysis.

SECURITY FOR THE NOTES

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit of the Secured Parties, a first priority perfected security interest in the Collateral, including the Collateral Assets, that is free of any adverse claim, to secure the Issuers' obligations under the Indenture, the Collateral Management Agreement, the Notes, the CP Notes, the Put Agreement and the Hedge Agreements. The CP Reserve Accounts will be used primarily for payments due and payable to the Holders of the CP Notes.

Purchase of Collateral Assets

The composition of the portfolio of Collateral Assets will be determined by the Collateral Manager, and will, on the date of purchase by the Issuer, be required to meet the Eligibility Criteria. On and after the Closing Date, each purchase of a Collateral Asset is required to satisfy the Reinvestment Criteria, including the Collateral Profile Tests, Collateral Quality Tests and Coverage Tests. Compliance with the Reinvestment Criteria shall be measured as of the date the Issuer makes a commitment to purchase the Collateral Asset (the "trade date"), not the settlement date. With respect to any purchases and/or sales of multiple Collateral Assets that are effected either contemporaneously or within ten Business Days from each other in accordance with the provisions described herein (each, a "Combined Trade"), compliance with the Reinvestment Criteria shall be measured by determining the aggregate effect of such Combined Trade on the Issuer's level of compliance with the applicable Reinvestment Criteria rather than considering the effect of each purchase and sale of the related Collateral Assets individually. In addition, with respect to any "package trade" in which multiple Collateral Assets are purchased and/or sold within the same "trade date" (regardless of whether the settlement dates are the same), compliance with the Reinvestment Criteria shall be measured by determining the aggregate effect of such "package trade" on the Issuer's level of compliance with the applicable Reinvestment Criteria (as of such trade date) rather than considering the effect of each purchase and sale of a Collateral Asset individually. The Reinvestment Criteria (or any part thereof) shall be "satisfied" if the same are passed, maintained or improved, except as otherwise described in the applicable Reinvestment Criteria.

The Collateral Manager expects that, by the Closing Date, it will have, on behalf of the Issuer, purchased, or entered into agreements to purchase, Collateral Assets identified by the Collateral Manager with an aggregate Principal Balance equal to approximately $1,500,000,000.

Satisfaction of Rating Agency Condition

As described in this offering circular, prior to taking certain actions or making certain investments, the Issuer or Collateral Manager will be required to obtain confirmation that such actions or investments will not result in the withdrawal or reduction of the long term ratings assigned by the Rating Agencies to the Class A Notes, the CP Notes, the Class B Notes, the Class C Notes or the Class D Notes by one or more subcategories.

Eligibility Criteria and Collateral Profile Tests

A Collateral Asset will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets both the General Eligibility Criteria (as defined herein) and the specific eligibility criteria applicable to the Category or Subcategory to which the Collateral Asset belongs (together, the "Eligibility Criteria").

In addition to the Eligibility Criteria, the general collateral profile tests and the specific collateral profile tests applicable to the Category or Subcategory to which the Collateral Asset belongs (together, the "Collateral Profile Tests") must be satisfied upon the purchase of a Collateral Asset on and after the Closing Date*; provided* that if, after the Closing Date, any of the limits of one or more of the Collateral Profile Tests is not passed prior to any acquisition, (1) the level of compliance with respect to such Collateral Profile Test must be maintained or improved after such acquisition; and (2) the level of

compliance with any other Collateral Profile Test may not be made worse after such acquisition, except to the extent that a reduction in the level of compliance does not result in non-compliance; *provided* that each calculation made to determine compliance with the Collateral Profile Tests will be made with the assumption that the Aggregate Principal Amount will remain unchanged by the sale or purchase of the Collateral Asset.

For purposes of the Collateral Profile Tests, in calculating the Aggregate Principal Amount, the Principal Balances of all Defaulted Obligations, Deferred Interest PIK Bonds, Single B Rated Assets, Double B Rated Assets and Triple C Rated Assets shall be their respective par balances.

With respect to any Collateral Asset, the date on which such obligation shall be deemed to "mature" (or its "maturity" date) shall be the earlier of (x) the stated maturity of such obligation or (y) if an investor in such Collateral Asset has the right to require the issuer or obligor of such Collateral Asset to purchase, redeem or retire such Collateral Asset (at par) on any one or more dates prior to its stated maturity and the Collateral Manager certifies to the Trustee that it shall exercise such put right on any such date, the maturity date shall be the date specified in such certification.

General Eligibility Criteria

A Collateral Asset will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the following general eligibility criteria (the "General Eligibility Criteria") in addition to the specific eligibility criteria applicable to the Category or Subcategory to which the Collateral Asset belongs:

(i) it can be classified in one of the following Categories or is a Synthetic Security the Reference Obligation of which can be classified in one of the following Categories: Residential Mortgage-Backed Security (RMBS Security), Commercial Mortgage-Backed Security (CMBS Security), CDO Security, Insured Security, Asset-Backed Security (ABS Security), REIT Debt Security or Interest Only Security;

(ii) it has satisfied one of the following conditions: (a) the Issuer has received an opinion of counsel to the effect that the acquisition, disposition, or ownership of such Collateral Asset will not subject the Issuer to net income tax or cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes, (b) the issuer has received an opinion of counsel to the effect that such Collateral Asset will be treated as debt for U.S. federal income tax purposes, if such Collateral Asset is treated as issued by a corporation, or should be treated as debt for U.S. federal income tax purposes, (c) the issuer has been provided the tax opinion rendered at the issuance of such Collateral Asset to the effect that such Collateral Asset will be treated as debt for U.S. federal income tax purposes, if such Collateral Asset is treated as issued by a corporation for U.S. federal income tax purposes, or should be treated as debt for U.S. federal income tax purposes, (d) the Issuer has received documents pursuant to which such Collateral Asset was offered, if any, that include or refer to an opinion of counsel to the effect that such Collateral Asset will be treated as debt for U.S. federal income tax purposes if such Collateral Asset is treated as issued by a corporation for U.S. federal income tax purposes, or should be treated as debt for U.S. federal income tax purposes, (e) the Alternative Debt Test is satisfied or (f) the Collateral Asset is a certificate of beneficial interest in a trust treated as a grantor trust for purposes of the Code, all the assets of which are (I) regular interests in an entity that is a REMIC or FASIT within the meaning of the Code (as evidenced by an opinion of counsel or reference to an opinion of counsel in offering documents), and (II) interest rate swaps, caps or other notional principal contracts (within the meaning of Treasury regulations) designed to hedge interest rate risk with respect to the assets of or the regular interests in such REMIC or FASIT; *provided* that (x) in the case of subclause (c), (d), (e) and (f) of this clause (ii), there has been no change in the terms of such Collateral Asset prior to the date of its acquisition by the Issuer, (y) this clause (ii) shall not apply to any Interest Only Security and (z) for purposes of this clause (ii), an opinion of counsel that the issuer of such Collateral Asset (or

certain assets of such issuer) will be treated as a REMIC or FASIT within the meaning of the Code shall be treated as an opinion of counsel that such Collateral Asset will be treated as debt for U.S. federal income tax purposes (unless such Collateral Asset is the residual interest in the REMIC or the ownership interest in the FASIT within the meaning of the Code);

(iii) it is issued by an issuer (A) incorporated or organized under the laws of the United States, a state thereof, the District of Columbia, the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, Ireland, or the Netherlands Antilles or (B) which is a Qualifying Foreign Obligor;

(iv) the payments on such Collateral Asset are not subject to withholding tax at a rate of greater than 15% of the interest payments thereon (as measured in the currency of such Collateral Assets) unless the issuer thereof or the obligor thereon is required to make additional payments sufficient (net of taxes) to cover any withholding tax imposed at any time on payments made to the Issuer with respect thereto;

(v) if it is a Non-U.S. Security, it must be a Structured Finance Security;

(vi) either (a) it was issued pursuant to an effective registration statement under the Securities Act in a "firm commitment" underwriting or (b) (1) it was issued in a transaction exempt from registration under the Securities Act pursuant to an offering memorandum, private placement memorandum or similar document and (2) neither the Issuer nor the Collateral Manager (nor any affiliate of the Collateral Manager) participated in the negotiation or structuring of the terms of such Collateral Asset, except for purposes of (i) commenting on offering documents to an underwriter or placement agent (or other person serving in a similar capacity) where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in Collateral Assets of such type; *provided* that after the Issuer has acquired such Collateral Asset, granting or withholding consent to any amendments or modifications of its terms shall not be deemed to be participating in the negotiation or structuring of the terms of such Collateral Asset;

(vii) its acquisition would not cause the Issuer or the pool of Collateral to be required to register as an investment company under the Investment Company Act; and if the issuer of such security is excepted from the definition of an "investment company" solely by reason of Section 3(c)(1) of the Investment Company Act, then either (a) such security does not constitute a "voting security" for purposes of the Investment Company Act or (b) the aggregate amount of such security held by the Issuer is less than 10% of the entire Issue of such security;

(viii) it is not (a) a Collateral Asset issued by an issuer located in a country that imposes foreign exchange controls that effectively limit the availability or use of U.S. Dollars to make when due the scheduled payments of principal of and interest on such Collateral Asset; (b) a financing by a debtor-in-possession in any insolvency proceeding; or (c) the subject of an Offer other than a Permitted Offer (each as defined herein) (and it has not been called for redemption);

(ix) the Issuer is not required by the terms of the related Underlying Instruments to make any payment or advance to the issuer of any Collateral Asset under the terms of its Underlying Instruments after its acquisition thereof or to any Synthetic Security Counterparty, other than any requirement to transfer Default Swap Collateral under the terms of a Synthetic Security which is a Default Swap and unless a subaccount has been fully funded to cover any such payments or advances;

(x) it provides for periodic payments of interest no less frequently than semiannually;

(xi) it was issued after July 18, 1984, and is in registered form for purposes of the Code;

(xii) (a) it is U.S. Dollar-denominated and it is not convertible into, or payable in, any other currency or (b) it is a Non-U.S. Dollar Denominated Asset;

(xiii) if it is a Deemed Floating Collateral Asset, the Deemed Floating Asset Hedge entered into with respect to such Deemed Floating Collateral Asset conforms to all requirements set forth in the definition of "Deemed Floating Asset Hedge" and if it is a Deemed Fixed Collateral Asset, the Deemed Fixed Asset Hedge entered into with respect to such Deemed Fixed Collateral Asset conforms to all requirements set forth in the definition of "Deemed Fixed Asset Hedge";

(xiv) if it is a Deemed Floating Collateral Asset or a Deemed Fixed Collateral Asset, not more than 10% of the Aggregate Principal Amount consists of Deemed Floating Rate Collateral Assets and Deemed Fixed Rate Collateral Assets and none may have Actual Ratings of "Aa3" or below by Moody's;

(xv) if it is a Floating Rate Asset, its interest rate (or the interest rate on the underlying pool of loans and securities) adjusts by reference to one of the following indices: Constant Maturity Treasury, any London interbank offered rate, prime or the corporate base rate, cost of funds index (all districts), constant maturity swaps, federal funds, Treasury bills, commercial paper composite or any other index added upon satisfaction of the Rating Agency Condition;

(xvi) it does not have a Weighted Average Life greater than 18 years, and its stated legal maturity is not later than September 2044;

(xvii) it is expected to have an outstanding principal balance of less than $1,000 after the Stated Maturity of the Class A-2 Notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5% per annum and (b) the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase;

(xviii) it is not a Defaulted Obligation or a security currently deferring interest or an obligation which, in the Collateral Manager's judgment, has a significant risk of declining in credit quality and, with the lapse of time, becoming a Defaulted Obligation (excluding Haircut Assets);

(xix) it is not a Collateral Asset that is ineligible under its Underlying Instruments to be purchased by the Issuer and pledged to the Trustee;

(xx) it is not preferred or common stock, a security convertible into preferred or common stock or a security combined with any of the preceding preferred or common stock or "margin stock" as defined under Regulation U issued by the Board of Governors of the Federal Reserve System;

(xxi) it is not a bank loan or a Corporate Security;

(xxii) if it is not an Interest Only Security, it provides for the payment of principal at not less than par upon maturity, redemption or acceleration;

(xxiii) it does not have an Actual Rating of below "Baa3" by Moody's and does not have an Actual Rating of below "BBB-" by S&P or is an RMBS Agency Security, and if the S&P rating (if any) includes an "r", "t", "Pi", "p" or "q" subscript, it satisfies the Rating Agency Condition with respect to S&P;

(xxiv) it has an Actual Rating of at least "A3" by Moody's or "A-" by S&P; and

(xxv) if it is a PIK Bond, it is not currently deferring interest.

In order to reduce the risk that the Issuer might be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, the Issuer and the Collateral Manager will observe certain additional restrictions and limitations on their activities and on the Collateral Assets that may be purchased. Accordingly, although a particular prospective investment may satisfy the Eligibility Criteria, it may be ineligible for purchase by the Issuer and the Collateral Manager as a result of these limitations and restrictions.

In addition, the Issuer will not purchase, acquire or hold (whether as part of a "unit" with a Collateral Asset, in exchange for a Collateral Asset or otherwise) (i) any asset that is treated for U.S. federal income tax purposes as an equity interest in an entity that is treated as a "domestic partnership" under Section 7701(a)(30)(B) of the Code or the ownership of which would otherwise cause the Issuer to be subject to income tax on a net income basis in any jurisdiction, (ii) any asset the gain from the disposition of which will be subject to U.S. federal income or withholding tax under Section 897 or Section 1445 of the Code and the Treasury regulations promulgated thereunder or (iii) any asset that is treated as an equity interest in an entity in which one or more employee benefit plans subject to ERISA are or could reasonably be treated as owning an undivided interest in each of the underlying assets of such entity for purposes of ERISA pursuant to 29 C.F.R. § 2510.3-101.

General Profile Tests

A Collateral Asset will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the general collateral profile tests listed below (the "General Profile Tests") in addition to the specific profile tests applicable to the Category or Subcategory to which the Collateral Asset belongs. For purposes of determining compliance with any Collateral Profile Test, all calculated percentages will be rounded to the nearest tenth of 1%, i.e., 5.13% would be rounded to 5.1%. The General Collateral Profile Tests are:

Aaa/AAA Rated Securities	not more than the greater of (i) 60% and (ii) U.S.$900,000,000 of the Aggregate Principal Amount may consist of Collateral Assets rated less than "Aaa" by Moody's and less than "AAA" by S&P (excluding RMBS Agency Securities);
Aa3/AA- Rated Securities	not more than the greater of (i) 15% and (ii) U.S.$225,000,000 of the Aggregate Principal Amount may consist of Collateral Assets rated less than "Aa3" by Moody's and less than "AA-" by S&P (excluding RMBS Agency Securities);
Below A3 Rated Securities	not more than the greater of (i) 5% and (ii) U.S.$75,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that have an Actual Rating or Implied Rating of less than "A3" by Moody's (excluding RMBS Agency Securities);
Step-Up Bonds	not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are Step-Up Bonds;
Step-Down Bonds	not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are Step-Down Bonds;
Single Servicer	not more than the greater of (i) 25.00% and (ii) U.S.$375,000,000 of the Aggregate Principal Amount may consist of Collateral Assets (including for this purpose, with

	respect to Synthetic Securities, the Reference Obligations) which are RMBS Securities or CMBS Securities serviced by a single Servicer which is ranked "Average" or better by S&P; not more than the greater of (i) 7.50% and (ii) U.S.$112,500,000 of the Aggregate Principal Amount may consist of Collateral Assets (including for this purpose, with respect to Synthetic Securities, the Reference Obligations) which are RMBS Securities or CMBS Securities serviced by a single Servicer which is ranked below "Average" by S&P or not ranked by S&P;
AAA/Aaa Rated Single Issue	(A) not more than the greater of (i) 3% and (ii) U.S.$45,000,000 of the Aggregate Principal Amount may consist of Collateral Assets (including for this purpose, with respect to Synthetic Securities, the Reference Obligations and excluding all RMBS Agency Securities) that are rated "Aaa" or lower by Moody's and "AAA" or lower by S&P and are from the same class or series or are issued or guaranteed by the same obligor or its affiliates (interests in the same master trust being considered the same class or series); and (B) not more than the greater of (i) 3% and (ii) U.S.$45,000,000 of the Aggregate Principal Amount may consist of RMBS Agency Securities with the same CUSIP;
AA/Aa Rated Single Issue	not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets (including for this purpose, with respect to Synthetic Securities, the Reference Obligations and excluding any RMBS Agency Securities) that are rated less than "Aaa" by Moody's and less than "AAA" by S&P and are from the same class or series or are issued or guaranteed by the same obligor or its affiliates (interests in the same master trust being considered the same class or series);
A/A Rated Single Issue	not more than the greater of (i) 1% and (ii) U.S.$15,000,000 of the Aggregate Principal Amount may consist of Collateral Assets (including for this purpose, with respect to Synthetic Securities, the Reference Obligations and excluding any RMBS Agency Securities) that are rated less than "Aa3" by Moody's and less than "AA-" by S&P and are from the same class or series (interests in the same master trust being considered the same class or series);
Non-U.S. Securities	not more than the greater of (i) 15% and (ii) U.S.$225,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are Non-U.S. Securities;
Non-U.S. Dollar Denominated Assets	not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are Non-U.S. Dollar Denominated Assets or are balance guaranteed swapped into U.S. Dollars;

Floating Rate Assets/ Floating Rate Securities	not more than 71% of the Aggregate Principal Amount may consist of Collateral Assets which are (i) Floating Rate Assets or (ii) Deemed Floating Collateral Assets;
Fixed Rate Assets/ Fixed Rate Securities	not more than 33% of the Aggregate Principal Amount may consist of Collateral Assets which are (i) Fixed Rate Assets or (ii) Deemed Fixed Collateral Assets;
Certain Pure Private Collateral Assets	not more than the greater of (i) 10% and (ii) U.S.$150,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that were not (a) issued pursuant to an effective registration statement under the Securities Act or (b) privately placed Collateral Assets that are eligible for resale under Rule 144A or Regulation S under the Securities Act;
Securities Lending	the Aggregate Principal Amount of (a) Collateral Assets loaned under Securities Lending Agreements entered into by the Issuer with a single Securities Lending Counterparty and (b) Collateral Assets loaned under Securities Lending Agreements entered into by the Issuer with Securities Lending Counterparties having the same ratings will not exceed the applicable individual or aggregate percentages set forth in Appendix F hereto, based upon the lowest Actual Rating by either Rating Agency;
Haircut Assets	not more than the greater of (i) 5% and (ii) U.S.$75,000,000 of the Aggregate Principal Amount may consist of Collateral Assets which are Haircut Assets;
Approved Subcategories	not more than the greater of (i) 10% and (ii) U.S.$150,000,000 of the Aggregate Principal Amount may consist of Collateral Assets which are classified in a single Approved Subcategory;
Weighted Average Life	not more than the greater of (i) U.S.$0 of the Aggregate Principal Amount and (ii) the excess of the Aggregate Principal Amount over U.S.$1,500,000,000 may consist of Collateral Assets that have a Weighted Average Life greater than 15 years, not more than the greater of (i) 5% and (ii) U.S.$75,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that have a Weighted Average Life greater than 12 years, not more than the greater of (i) 10% and (ii) U.S.$150,000,000 of the Aggregate Principal Amount shall consist of Collateral Assets that have a Weighted Average Life greater than 10 years, not less than the lesser of (i) 70% and (ii) U.S.$1,050,000 of the Aggregate Principal Amount shall consist of Collateral Assets that have a Weighted Average Life equal to or less than 8 years and not less than the lesser of (i) 40% and (ii) U.S.$600,000,000 of the Aggregate Principal Amount shall consist of Collateral Assets that have a Weighted Average Life equal to or less than 5 years;

Issue Size	not more than the greater of (i) 15% and (ii) U.S.$225,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are part of an Original Issuance Amount which has an aggregate principal amount of less than $100,000,000 and not more than the greater of (i) 5% and (ii) U.S.$75,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are part of an Original Issuance Amount of less than $50,000,000; *provided*, that such limits will not apply to Synthetic Securities or to REIT Debt Securities issued by an issuer of REIT Debt Securities having an aggregate principal amount of outstanding securities of at least $200,000,000; and *provided, further*, that Collateral Assets that were not (a) issued pursuant to an effective registration statement under the Securities Act or (b) privately placed and eligible for resale under Rule 144A or Regulation S under the Securities Act must have an Original Issuance Amount of at least $100,000,000;
Bivariate Basket Limitation	not more than the greater of (i) 20% and (ii) U.S.$300,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are (a) obligations of non-U.S. obligors, other than (x) sovereign obligors and (y) obligors in AAA/Aaa Jurisdictions, and those other obligors located in any other commonly used domicile for structured product transactions, whose issued securities are backed by financial assets at least 80% of which represent obligations of obligors in AAA/Aaa Jurisdictions, (b) Collateral Assets that have been loaned pursuant to Securities Lending Agreements and (c) Synthetic Securities (other than Default Swaps if the Issuer holds a Default Swap Collateral Account related thereto) with Synthetic Security Counterparties rated less than "AAA" by S&P;
PIK Bonds	not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are PIK Bonds;
Synthetic Securities Limitation	not more than 20% of the Aggregate Principal Amount may consist of Collateral Assets that are Synthetic Securities (including Collateral Assets that are Default Swaps);
Number of Obligors	not less than 100 separate obligors shall be represented in the Aggregate Principal Amount of Collateral Assets during the Reinvestment Period; *provided* that with respect to RMBS Agency Securities, each CUSIP number shall be considered a separate obligor;
Obligor Concentration	not less than the lesser of (i) 25% and (ii) U.S.$375,000,000 of the Aggregate Principal Amount may consist of Collateral Assets the obligor of which represents 1% or less of the aggregate obligors of the Collateral Assets, not more than the greater of (i) 40% and (ii) U.S.$600,000,000 of the Aggregate Principal Amount may consist of Collateral Assets the obligor of which represents more than 2% of the aggregate obligors of

	the Collateral Assets, not more than the greater of (i) 15% and (ii) U.S.$225,000,000 of the Aggregate Principal Amount may consist of Collateral Assets the obligor of which represents 3% or more of the aggregate obligors of the Collateral Assets, not more than the greater of (i) 50% and (ii) U.S.$750,000,000 of the Aggregate Principal Amount may consist of Collateral Assets the obligors of which are the largest 25 obligors of the Collateral Assets;

Specific Category Eligibility Criteria and Specific Category Collateral Profile Tests

A Collateral Asset will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the following specific Category eligibility criteria and specific Category collateral profile tests in addition to the general eligibility criteria and general collateral profile tests applicable to the Collateral Assets:

CMBS Security Eligibility Criterion

CMBS Security Eligibility Criterion

A CMBS Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criterion (such additional criterion, the "CMBS Security Eligibility Criterion"):

it can be classified in an Approved Subcategory of CMBS Securities or one of the following Subcategories: CMBS Conduit Security, CMBS Large Loan Security, CMBS Franchise Security, CMBS Credit Tenant Lease Security, or CMBS RE-REMIC Security.

RMBS Security Eligibility Criteria and Profile Test

RMBS Security Eligibility Criteria

A RMBS Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following specific Category criteria (such additional criteria, the "RMBS Security Eligibility Criteria"):

(i) it can be classified in an Approved Subcategory of RMBS Securities or one of the following Subcategories: RMBS Agency Security, RMBS Residential A Mortgage Security, RMBS Residential B/C Mortgage Security, RMBS Manufactured Housing Loan Security or RMBS Home Equity Loan Security; and

(ii) if it is a RMBS Manufactured Housing Loan Security, it has a rating of at least "Aa3" or "AA-" by Moody's or S&P, respectively.

RMBS Security Profile Test

RMBS Manufactured Housing Loan Securities	not more than the greater of (i) 2.0% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are RMBS Manufactured Housing Loan Securities.

CDO Security Eligibility Criteria and Profile Test

CDO Security Eligibility Criteria

A CDO Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criteria (such additional criteria, the "CDO Security Eligibility Criteria"):

(i) it can be classified in an Approved Subcategory of CDO Securities or one of the following Subcategories: CDO Structured Product Security, CDO RMBS Security, CDO Commercial Real Estate Security or CDO Corporate Security;

(ii) it is not a Market Value CDO Security; and

(iii) if it is a CDO Security, the collateral manager is not Western or any of its affiliates.

CDO Security Profile Test

CDO Securities	not more than the greater of (i) 10% and (ii) U.S.$150,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are CDO Securities; *provided* that not more than the greater of (i) 5% and (ii) U.S.$75,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are CDO Securities without a rating of at least "Aaa" or "AAA" by Moody's or S&P, respectively, and not more than the greater of (i) 2% and (ii) U.S.$30,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are CDO Securities without a rating of at least "Aa3" or "AA-" by Moody's or S&P, respectively.

Insured Security Eligibility Criterion and Profile Test

Insured Security Eligibility Criterion

An Insured Security will be eligible for purchase by the Issuer and pledged to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criterion (such additional criterion, the "Insured Security Eligibility Criterion"):

it is rated at least "Aa3" by Moody's or "AA-" by S&P.

For purposes of clarification, any Insured Security must be classified as such and not by the underlying assets of such Insured Security.

Insured Security Profile Test

Insured Securities	not more than the greater of (i) 10% and (ii) U.S.$150,000,000 of the Aggregate Principal Amount may consist of Collateral Assets that are Insured Securities (excluding RMBS Agency

Securities and Insured Securities that would satisfy the Insured Security Eligibility Criterion without the monoline wrap).

Asset-Backed Security Eligibility Criterion

Asset-Backed Security Eligibility Criterion

An Asset-Backed Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criteria (such additional criteria, the "Asset-Backed Security Eligibility Criteria"):

it can be classified in an Approved Subcategory of ABS Securities or one of the following Subcategories: ABS Credit Card Securities, ABS Automobile Securities or ABS Other Securities.

REIT Debt Security Eligibility Criterion

REIT Debt Security Eligibility Criterion

A REIT Debt Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criteria (the "REIT Debt Security Eligibility Criteria"):

it can be classified in an Approved Subcategory of REIT Debt Securities or one of the following Subcategories: REIT Retail Security, REIT Office Security, REIT Industrial Security, REIT Multi-family Security or REIT Other Security (each as defined herein).

Interest Only Security Eligibility Criteria and Profile Test

Interest Only Security Eligibility Criteria

An Interest Only Security will be eligible for purchase by the Issuer and pledge to the Trustee if, at the time it is purchased, it meets the General Eligibility Criteria and the following additional criteria (such additional criteria, the "Interest Only Security Eligibility Criteria"):

(i) it has an Actual Rating of "Aaa" by Moody's or "AAA" by S&P;

(ii) if rated by Moody's, it has an Actual Rating of "Aaa," and if rated by S&P, it has an Actual Rating of "AAA";

(iii) at the time of purchase, in the reasonable judgment of the Collateral Manager, it is able to withstand two times the expected prepayment on the underlying assets without a value decline greater than 1%, or the majority of its underlying collateral has some form of prepayment protection *provided*, that within 10 days of the acquisition of any such Interest Only Security, the Collateral Manager shall give Moody's notice of such acquisition, together with evidence of satisfaction of this clause (iii); and

(iv) if it is an Interest Only Security that is a CMBS Large Loan Security, the Rating Agency Condition is satisfied with respect to S&P in connection with the acquisition of such Interest Only Security.

Interest Only Security Profile Test

Interest Only Securities	the Aggregate Amortized Cost of all such Collateral Assets that are Interest Only Securities must not exceed 2% of the Aggregate Principal Amount.

The Collateral Quality Tests

The Collateral Quality Tests will be used primarily as criteria for purchasing Collateral Assets. See "—Substitute Collateral Assets and Reinvestment Criteria." The "Collateral Quality Tests" will consist of the Moody's Diversity Test, the Moody's Maximum Rating Distribution Test, the Maximum Weighted Average Life Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Weighted Average Spread Test, the Weighted Average Coupon Test, the S&P CDO Monitor Test and the S&P Minimum Average Recovery Rate Test. For purposes of the Collateral Quality Tests, (i) unless otherwise specified, a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Synthetic Security and not of the Reference Obligation*; provided* that such Synthetic Security Counterparty is rated higher than the Reference Obligation or its obligor and that such Synthetic Security Counterparty is not in default under the related Synthetic Security and (ii) any Collateral Asset loaned to a Securities Lending Counterparty shall be included in the Collateral Quality Tests*; provided* that such Securities Lending Counterparty is not in default under the related Securities Lending Agreement.

Measurement of the degree of compliance with the Collateral Quality Tests will be required: (i) upon a sale, purchase or substitution of Collateral Assets (giving effect to such sale, purchase or substitution and any prior ratings upgrade or downgrade or default), (ii) on each Determination Date, and (iii) with reasonable notice to the Issuer, on any Business Day specified as a Measurement Date by any of the Rating Agencies or the Holders of at least a SuperMajority of any Class of Notes.

Moody's Diversity Test. The "Moody's Diversity Test" will be satisfied as of the Closing Date and any other Measurement Date if the Diversity Score (rounded to the nearest whole number) equals or exceeds 20. The "Diversity Score" is a single number that indicates collateral concentration in terms of both issuer and industry concentration based on classification as either Diversified Securities, Residential Mortgage-Backed Securities, Undiversified Securities, Low-Diversity CDOs or High Diversity CDOs. The methodology used to calculate the Moody's Diversity Score are set forth in Appendix B hereto. The Moody's Diversity Test is similar to a score that Moody's uses to measure default risk for purposes of its ratings. A higher Diversity Score reflects a more diverse portfolio in terms of issuer and industry concentration. The Diversity Score is expected to be approximately 24 as of the Closing Date. For purposes of the Moody's Diversity Test, (i) a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Reference Obligation, (ii) the Diversity Score will be calculated for each Synthetic Security assuming that the Reference Obligor with respect to such Synthetic Security is the obligor of such Synthetic Security and (iii) Deferred Interest PIK Bonds, Defaulted Obligations and Interest Only Securities shall be disregarded.

The default risk of asset-backed securities and mortgage-backed securities is more highly correlated than the default risk of a pool of corporate bonds of unaffiliated issuers in many different industry groups. To analyze collateral assets from sectors with correlated default risk, Moody's has developed an alternative Diversity Score method which is described in Appendix B hereto.

Moody's Maximum Rating Distribution Test. The "Moody's Maximum Rating Distribution Test" will be satisfied on any Measurement Date if the Moody's Maximum Rating Distribution of the Collateral Assets is equal to or less than 50. "Moody's Maximum Rating Distribution" is defined in Appendix C hereto.

Maximum Weighted Average Life Test. The "Maximum Weighted Average Life Test" will be satisfied if, as of any Measurement Date, the Aggregate Weighted Average Life of the Collateral Assets is

less than or equal to 5.5 years, declining to 3.5 years by 0.4 years each year on the Determination Date relating to the September Payment Date with the first decline commencing on the Determination Date relating to the Payment Date in September 2005.

"Weighted Average Life of the Collateral Assets" will equal the number obtained by summing the products obtained by multiplying the Principal Balance of each Collateral Asset (other than Defaulted Obligations and Deferred Interest PIK Bonds) by its Weighted Average Life, dividing such sum by the aggregate Principal Balance of all such Collateral Assets and rounded to the nearest hundredth.

Moody's Minimum Weighted Average Recovery Rate Test. "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied as of any Measurement Date if the Moody's Weighted Average Recovery Rate (as defined below) is greater than or equal to 57.0%.

The "Moody's Weighted Average Recovery Rate" will equal the number obtained by summing the products obtained by multiplying the Principal Balance of each Collateral Asset by its Moody's Recovery Rate (determined for purposes of this definition pursuant to clause (a) of the definition of Applicable Recovery Rate), dividing such sum by the Aggregate Principal Amount of all such Collateral Assets, multiplying the result by 100 and rounding up to the first decimal place. For purposes of the Moody's Weighted Average Recovery Rate, the Principal Balance of a Defaulted Obligation or Deferred Interest PIK Bond will be deemed to be equal to its outstanding principal amount (without regard to any deferred and capitalized interest).

Weighted Average Spread Test. The "Weighted Average Spread Test" will be satisfied as of any Measurement Date if the Weighted Average Spread as of such Measurement Date is greater than or equal to the Minimum Weighted Average Spread.

The "Weighted Average Spread" as of any Measurement Date will equal a fraction (expressed as a percentage) obtained by dividing (I) by (II) where (I) equals the sum of (a) a number obtained by summing the products obtained by multiplying (x) the Spread on each Collateral Asset that is a Floating Rate Asset or a Deemed Floating Collateral Asset (other than a Defaulted Obligation or a Deferred Interest PIK Bond) as of such date by (y) the Principal Balance of each such Collateral Asset *plus* (b) the Necessary Spread Crossover Amount *minus* (c) the Necessary Fixed Crossover Amount and (II) equals the aggregate Principal Balance of all Collateral Assets that are Floating Rate Assets or Deemed Floating Collateral Assets (excluding all Defaulted Obligations and Deferred Interest PIK Bonds or Excess Assets) held by the Issuer as of such Measurement Date (*provided, however*, that for purposes of determining the "Weighted Average Spread" with respect to Non-U.S. Dollar Denominated Assets, interest payments expected to be received on such Collateral Assets shall be calculated in then-current U.S. Dollars after giving effect to any currency exchange by the Issuer and payments in then-current U.S. Dollars made to the Issuer and by the Issuer under the Currency Swap Agreements).

The "Minimum Weighted Average Spread" is 0.85%.

For purposes of reporting, any Gross Fixed Rate Excess or Gross Spread Excess (each term, as defined herein) necessary to satisfy the Weighted Average Spread Test or Weighted Average Coupon Test, respectively, will be subtracted, in percentage form, from the alternative test so as not to double-count the application of such excess.

Weighted Average Coupon Test. The "Weighted Average Coupon Test" will be satisfied as of any Measurement Date if the Weighted Average Coupon as of such Measurement Date is greater than or equal to the Minimum Weighted Average Coupon.

The "Weighted Average Coupon" as of any Measurement Date will equal a fraction (expressed as a percentage) obtained by dividing (I) by (II) where (I) equals the sum of (a) a number obtained by (i) summing the products obtained by multiplying (x) the Current Interest Rate on each Collateral Asset that is a Fixed Rate Asset or Deemed Fixed Collateral Asset (excluding all Defaulted Obligations, Deferred

Interest PIK Bonds and Interest Only Securities) by (y) the Principal Balance of each such Collateral Asset *plus* (b) the number obtained by summing the payment in such period applicable to any interest rate cap and the annualized Applicable Amount for Interest Only Securities *plus* (c) the Necessary Fixed Crossover Amount *minus* (d) the Necessary Spread Crossover Amount and (II) equals the aggregate Principal Balance of all Collateral Assets that are Fixed Rate Assets or Deemed Fixed Collateral Assets (excluding all Defaulted Obligations, Deferred Interest PIK Bonds, Interest Only Securities and Excess Assets) held by the Issuer as of such Measurement Date (*provided, however*, that for purposes of determining the "Weighted Average Coupon" with respect to Non-U.S. Dollar Denominated Assets, interest payments expected to be received on such Collateral Assets shall be calculated in then-current U.S. Dollars after giving effect to any currency exchange by the Issuer and payments in then-current U.S. Dollars made to the Issuer and by the Issuer under the Currency Swap Agreements).

The "Minimum Weighted Average Coupon" is 6.10%.

In calculating any Collateral Quality Test by reference to the spread (in the case of a floating rate Step-Down Bond) or coupon (in the case of a fixed rate Step-Down Bond) of a Step-Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step-Down Bond on or after such date. In calculating any Collateral Quality Test by reference to the spread (in the case of a floating rate Step-Up Bond) or coupon (in the case of a fixed rate Step-Up Bond) of a Step-Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash and in effect on such date.

S&P CDO Monitor Test. The "S&P CDO Monitor Test" will be satisfied as of any Measurement Date, if each of the Class A Note Loss Differential, the Class B Note Loss Differential, the Class C Note Loss Differential and the Class D Note Loss Differential of the Current Portfolio or the Proposed Portfolio, as applicable, is positive. The S&P CDO Monitor Test will be considered to be improved if the Class A Note Loss Differential of the Proposed Portfolio is greater than the Class A Note Loss Differential of the Current Portfolio, the Class B Note Loss Differential of the Proposed Portfolio is greater than the Class B Note Loss Differential of the Current Portfolio, the Class C Note Loss Differential of the Proposed Portfolio is greater than the Class C Note Loss Differential of the Current Portfolio, and the Class D Note Loss Differential of the Proposed Portfolio is greater than the Class D Note Loss Differential of the Current Portfolio.

The "S&P CDO Monitor" means the model used to estimate the default rate the portfolio is likely to experience and which will be provided to the Collateral Manager on or before the first Payment Date (or such later Payment Date as first provided by S&P). The S&P CDO Monitor calculates the projected cumulative default rate of a pool of Collateral Assets consistent with a specified benchmark rating level based upon S&P's proprietary corporate debt default studies. In calculating the Class A Note Stressed Default Rate, the Class B Note Stressed Default Rate, the Class C Note Stressed Default Rate and the Class D Note Stressed Default Rate, the S&P CDO Monitor considers each obligor's issuer rating, the number of obligors in the portfolio, the obligor and industry concentrations in the portfolio and the remaining weighted average maturity of the Collateral Assets and Eligible Investments and calculates a cumulative default rate based on the statistical probability of distributions or defaults on the Collateral Assets and Eligible Investments. "Class A Note Default Differential," "Class A Note Stressed Default Rate," "Class A Note Break-Even Default Rate," "Class B Note Default Differential," "Class B Note Stressed Default Rate," "Class B Note Break-Even Default Rate," "Class C Note Default Differential," "Class C Note Stressed Default Rate," "Class C Note Break-Even Default Rate," "Class D Note Default Differential," "Class D Note Stressed Default Rate," and "Class D Note Break-Even Default Rate" are each defined in Appendix A hereto.

There can be no assurance that actual defaults of the Collateral Assets or the timing of defaults will not exceed those assumed in the application of the S&P CDO Monitor or that recovery rates with respect thereto will not differ from those assumed in the S&P CDO Monitor Test. S&P makes no representation that actual defaults will not exceed those determined by the S&P CDO Monitor Test. None

of the Issuers, the Collateral Manager or the Initial Purchaser makes any representation as to the expected rate of defaults of the Collateral Assets or the timing of defaults or as to the expected recovery rate or the timing of recoveries.

S&P Minimum Average Recovery Rate Test. The "S&P Minimum Average Recovery Rate Test" will be satisfied as of any Measurement Date if the S&P Minimum Average Recovery Rate is greater than or equal to 60% (calculated using the AAA stress case) if the Class A Notes and the Class B Notes are outstanding, 67% (calculated using the AA stress case) if only the Class B Notes, the Class C Notes and the Class D Notes are outstanding, 74% (calculated using the A stress case) if only the Class C Notes and the Class D Notes are outstanding and 77% (calculated using the BBB stress case) if only the Class D Notes are outstanding.

The "S&P Minimum Average Recovery Rate" means, as of any Measurement Date, a rate expressed as a percentage equal to the number obtained by (i) summing the products obtained by multiplying the Principal Balance of each Collateral Asset by its S&P Recovery Rate and (ii) dividing such sum by the Aggregate Principal Amount less cash and Eligible Investments representing Principal Proceeds and (iii) rounding up to the first decimal place. For this purpose, the Principal Balance of a Defaulted Obligation or a Deferred Interest PIK Bond will be deemed to be equal to its outstanding principal amount (excluding any capitalized interest thereon).

S&P's recovery rate matrix and Moody's recovery assumptions are set forth in Appendix E hereto.

The Coverage Tests

The Coverage Tests will be used on any Determination Date primarily to determine whether interest may be paid on the Class C Notes, whether Proceeds will be distributed to the Holders of the Class E Shares, whether Principal Proceeds may be reinvested in Collateral Assets, or whether Principal Proceeds must be used to make mandatory redemptions of the Class A Notes, the Class B Notes and the Class C Notes or defeasance of the CP Notes, as described in the Priority of Payments. See "—Substitute Collateral Assets and Reinvestment Criteria" and "Description of the Notes and the Class E Shares—Principal" and "—Priority of Payments." The "Coverage Tests" will consist of the Class A/B Overcollateralization Test, the Class A/B Interest Coverage Test, the Class C Overcollateralization Test and the Class C Interest Coverage Test. For purposes of the Coverage Tests, (i) unless otherwise specified, a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Synthetic Security and not of the Reference Obligation; *provided*, that if such Synthetic Security Counterparty is in default under the related Synthetic Security, such Synthetic Security shall not be included in the Coverage Tests or such Synthetic Security will be treated in such a way that will satisfy the Rating Agency Condition, (ii) any Collateral Asset loaned to a Securities Lending Counterparty shall be included in the Coverage Tests; *provided*, that such Securities Lending Counterparty is not in default under the related Securities Lending Agreement, (iii) the calculation of the Class A/B Overcollateralization Ratio and the Class C Overcollateralization Ratio on any Measurement Date shall be made by giving effect to all payments and reinvestments (at the Assumed Reinvestment Rate) scheduled or expected to be made pursuant to the Priority of Payments on the Payment Date following such Measurement Date, (iv) the calculation of the Class A/B Interest Coverage Ratio and the Class C Interest Coverage Ratio on any Measurement Date shall be made without giving effect to payments and reinvestments scheduled or expected to be made pursuant to the Priority of Payments on the Payment Date following such Measurement Date. For purposes of each of the Class A/B Overcollateralization Test and the Class C Overcollateralization Test, notwithstanding the definition of Principal Balance contained herein, the Principal Balance of any Step-Up Bond that is not currently paying cash interest (excluding any security that is, in accordance with its terms, making payments due thereon "in kind") shall be the accreted value of such security as of the date on which it was purchased by the Issuer; *provided*, that such accreted value shall not exceed the par amount of such Step-Up Bond.

Measurement of the degree of compliance with the Coverage Tests will be required as of each Measurement Date.

The Class A/B Overcollateralization Test

The "Class A/B Overcollateralization Ratio" as of any Measurement Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (ii) the sum of the aggregate outstanding principal amount of the CP Notes or Class A-1LT-b Notes, as applicable, *plus* the aggregate outstanding principal amount of the Class A Notes and the Class B Notes, *minus* any amount deposited in the CP Principal Reserve Account to Defease the CP Notes.

The "Class A/B Overcollateralization Test" will be satisfied on any Measurement Date on which any Class A Notes remain outstanding if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 103.0%. The Class A/B Overcollateralization Ratio is expected to be 104.0% as of the Closing Date.

Class A/B Interest Coverage Test

The Class A/B Interest Coverage Ratio is expected to be approximately equal to 119.4% as of the Closing Date. The "Class A/B Interest Coverage Test" will be satisfied as of any Measurement Date if the Class A/B Interest Coverage Ratio is equal to or greater than 101.0% in the first Due Period and 108.0% in each Due Period thereafter.

The "Class A/B Interest Coverage Ratio" as of any Measurement Date will equal the ratio (expressed as a percentage) obtained by dividing:

(i) (a) the sum of the cash interest payments (or any purchase discount in the case of Eligible Investments or premiums in the case of Default Swaps) received or expected to be received, including Proceeds of any sold Collateral Asset which represents accrued interest (unless such accrued interest is otherwise required to be classified as Principal Proceeds) (current interest payments expected to be received on Non--U.S. Dollar Denominated Assets shall be calculated in U.S. Dollars after giving effect to payments expected to be made to the Issuer and by the Issuer under the Currency Swap Agreements) in the Due Period in which such Measurement Date occurs on the Collateral Assets and the Eligible Investments (other than cash received from Defaulted Obligations and Deferred Interest PIK Bonds) held in any of the Accounts, limited, in the case of Interest Only Securities to the Applicable Amount for Interest Only Securities, *plus* (b) prepayment premiums received, *plus* (c) without duplication, amounts scheduled to be received by the Issuer from any Hedge Counterparty under any Hedge Agreement (excluding any net payments into the CP Interest Reserve Account from the Cashflow Swap Counterparty) less any amounts scheduled to be paid to any Hedge Counterparty (including amounts payable to the Cashflow Swap Counterparty relating to any unreimbursed Interim Cashflow Swap Payments that are not paid out of the CP Interest Reserve Account) (in each case, other than termination payments and termination receipts related to such Hedge Agreements), *plus* (d) the CP Interest Reserve Excess Amount, if any, expected to be paid on the next Payment Date, *minus* (e) the excess of amounts expected to be paid on the next Payment Date under clauses (1), (2), (3) and (5) of the Priority of Payments over amounts on deposit in the Expense Reserve Account on the Measurement Date; by

(ii) an amount not less than $1.00 equal to the sum of (a) the interest payments due on the Class A Notes and the Class B Notes on the following Payment Date, (b) the aggregate interest due and payable on CP Notes from but excluding the prior Payment Date to and including the current Payment Date (which will not include discounts on CP Notes), (c) any Put Premium and any CP Note Placement Agent Fee (excluding any such amounts paid as discount on CP Notes) due on such Payment Date and (d) the greater of (y) zero and (z) net amounts deposited to the CP Interest Reserve Account excluding payments to or from the Cashflow Swap Counterparty.

For purposes of calculating the Class A/B Interest Coverage Ratio, expected interest payments on the Collateral Assets and the Eligible Investments will not include any scheduled interest payments which the Issuer or the Collateral Manager reasonably expects will not be made in cash during the

applicable Due Period (including on any assets currently deferring interest) and amounts scheduled to be received under any Hedge Agreement or Currency Swap Agreement which the Issuer or the Collateral Manager reasonably expects will not be made during the applicable Due Period.

The Class C Overcollateralization Test

The "Class C Overcollateralization Ratio" as of any Measurement Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (ii) the sum of the aggregate outstanding principal amount of the CP Notes or Class A-1LT-b Notes, as applicable, *plus* the aggregate outstanding principal amount of the Class A Notes, the Class B Notes and Class C Notes (including Class C Deferred Interest) *minus* any amount deposited in the CP Principal Reserve Account to Defease the CP Notes.

The "Class C Overcollateralization Test" will be satisfied on any Measurement Date on which any Class C Notes remain outstanding if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than 100.0%. The Class C Overcollateralization Ratio is expected to be 102.2% as of the Closing Date.

Class C Interest Coverage Test

The Class C Interest Coverage Ratio is expected to be approximately equal to 115.8% as of the Closing Date. The "Class C Interest Coverage Test" will be satisfied as of any Measurement Date if the Class C Interest Coverage Ratio is equal to or greater than 100% during the first Due Period and 105.0% in each Due Period thereafter.

The "Class C Interest Coverage Ratio" as of any Measurement Date will equal the ratio (expressed as a percentage) obtained by dividing:

(i) (a) the sum of the cash interest payments (or any purchase discount in the case of Eligible Investments or premiums in the case of Default Swaps) received or expected to be received, including Proceeds of any sold Collateral Asset which represents accrued interest (unless such accrued interest is otherwise required to be classified as Principal Proceeds) (current interest payments expected to be received on Non-U.S. Dollar Denominated Assets shall be calculated in U.S. Dollars after giving effect to payments expected to be made to the Issuer and by the Issuer under the Currency Swap Agreements) in the Due Period in which such Measurement Date occurs on the Collateral Assets and the Eligible Investments (other than cash received from Defaulted Obligations and Deferred Interest PIK Bonds) held in any of the Accounts, limited, in the case of Interest Only Securities to the Applicable Amount for Interest Only Securities, *plus* (b) prepayment premiums received, *plus* (c) without duplication, amounts scheduled to be received by the Issuer from any Hedge Counterparty under any Hedge Agreement (excluding any net payments into the CP Interest Reserve Account from the Cashflow Swap Counterparty) less any amounts scheduled to be paid to any Hedge Counterparty (including amounts payable to the Cashflow Swap Counterparty relating to any unreimbursed Interim Cashflow Swap Payments that are not paid out of the CP Interest Reserve Account) (in each case, other than termination payments and termination receipts related to such Hedge Agreements), *plus* (d) the CP Interest Reserve Excess Amount, if any, expected to be paid on the next Payment Date, *minus* (e) the excess of amounts expected to be paid on the next Payment Date under clauses (1), (2), (3) and (5) of the Priority of Payments over amounts on deposit in the Expense Reserve Account on the Measurement Date; by

(ii) an amount not less than $1.00 equal to the sum of (a) interest payments due on the Class A Notes, the Class B Notes and the Class C Notes on the following Payment Date, (b) the aggregate interest due and payable on CP Notes issued from but excluding the prior Payment Date to and including the current Payment Date (which will not include discounts on CP Notes), (c) any Put Premium and any CP Note Placement Agent Fees (excluding any such amounts paid as discount on CP Notes) due on such Payment Date and (d) the greater of (y) zero and (z) net amounts deposited to the CP Interest Reserve Account excluding payments to or from the Cashflow Swap Counterparty.

For the purposes of calculating the Class C Interest Coverage Ratio (i) expected interest payments on the Collateral Assets and the Eligible Investments will not include any scheduled interest payments which the Issuer or the Collateral Manager reasonably expects will not be made in cash during the applicable Due Period (including on any asset currently deferring interest) and including amounts scheduled to be received under any Hedge Agreement or Currency Swap Agreement which the Issuer or the Collateral Manager reasonably expects will not be made during the applicable Due Period; and (ii) interest scheduled to be paid on the Class C Notes on the following Payment Date shall be considered due on any Measurement Date prior to or on such Payment Date even if all or a portion of such interest shall become Class C Deferred Interest on such Payment Date as provided for under "Description of the Notes and the Class E Shares—Interest."

For purposes of calculating the Class A/B Interest Coverage Ratio and the Class C Interest Coverage Ratio and for purposes of the criteria described under "—Substitute Collateral Assets and Reinvestment Criteria," the expected collateral interest income on Collateral Assets which are Floating Rate Assets, Deemed Floating Collateral Assets and Eligible Investments (including amounts scheduled to be received under any Hedge Agreement or Currency Swap Agreement) and the expected interest payable on the Notes will be calculated using the then-current interest rates and currency rates applicable thereto.

Substitute Collateral Assets and Reinvestment Criteria

Sales of Collateral Assets. The Collateral Assets may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Assets. In addition, pursuant to the Indenture and *provided* no Event of Default has occurred and is continuing, the Collateral Manager may direct the Trustee to sell (i) any Defaulted Obligation, (ii) any Credit Risk Obligation, (iii) any Credit Improved Obligation and (iv) subject to limitations on amounts and other requirements set forth in the Indenture and described herein, other Collateral Assets in Discretionary Sales.

Defaulted Obligations and equity securities may be sold at any time during or after the Reinvestment Period without regard to the restrictions set forth in the Indenture concerning sales of other types of Collateral Assets. During the Reinvestment Period, proceeds from the sale of Defaulted Obligations may be reinvested in Collateral Assets which satisfy the Reinvestment Criteria. After the Reinvestment Period, the proceeds from the sale of Defaulted Obligations will be applied as Principal Proceeds on the Payment Date following the Due Period in which such sale occurs. Equity securities received in exchange offers shall be sold as soon as commercially practicable in the Collateral Manager's reasonable business judgment. The Issuer shall use commercially reasonable efforts to sell any Margin Stock (as defined herein) acquired by it not later than 45 days after the Issuer's acquisition of such Margin Stock. The limits and time periods described in this paragraph may be extended subject to satisfaction of the Rating Agency Condition.

"Credit Risk Obligation" means any Collateral Asset that in the Collateral Manager's reasonable business judgment has a significant risk of declining in credit quality (or, in the case of an Asset-Backed Security or Mortgage-Backed Security, there has occurred, or is expected to occur, a deterioration in the quality of the underlying pool of assets) and, with a lapse of time, a significant risk of becoming a Defaulted Obligation*; provided*, that:

(i) Moody's has not withdrawn or reduced its long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or withdrawn or reduced its long term ratings on any of the Class C Notes or Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes to at least their initial long term rating, as applicable); or

(ii) if Moody's has withdrawn or reduced its long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or withdrawn or reduced its long term ratings on any of the Class C Notes or Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes to at least their initial long term rating, as applicable), (a) such Collateral Asset has been downgraded by Moody's at least one or more rating subcategories since it was acquired by the Issuer or placed by Moody's on a watch list with negative implications since the date on which such Collateral Asset was purchased by the Issuer, (b) since the date on which such Collateral Asset was purchased by the Issuer, there has been an increase in credit spread (as measured with respect to the relevant benchmark Treasury security rate, swap rate or the applicable Approved Index) of (y) 0.20% or more, in the event that the original credit spread was 0.50% or more or (z) 0.10% or more, in the event that the original credit spread was under 0.50% or (c) for floating rate assets, the price has decreased to 99% of the original purchase price paid by the Issuer. For purposes of this definition, "Approved Index" means the U.S. dollar prime rate, the federal funds rate, or any other interest rate generally accepted as a basis for alternate base rate loans, the London interbank offered rate or similar interbank offered rate, commercial deposit rate or any other index which satisfies the Rating Condition with respect to Moody's.

A Credit Risk Obligation may be sold at any time during or after the Reinvestment Period. The effect of any reinvestment in substitute Collateral Assets on the Coverage Tests shall be measured by comparing such Coverage Tests as calculated after the sale of such Credit Risk Obligation with the calculation after the purchase of such substitute Collateral Assets in order to determine whether such Coverage Tests will be satisfied as a result of such reinvestment. In addition, when calculating the S&P CDO Monitor Test in connection with the sale of a Credit Risk Obligation, any Collateral Asset acquired with Sale Proceeds of a Credit Risk Obligation need not comply with the S&P CDO Monitor Test.

"Credit Improved Obligation" means any Collateral Asset that in the Collateral Manager's reasonable business judgment has significantly improved in credit quality which improvement may (but need not) have resulted from one of the following: (a) such Collateral Asset has been upgraded or put on a watch list for possible upgrade by any of the Rating Agencies since the date on which such Collateral Asset was purchased by the Issuer, (b) the issuer of such Collateral Asset has shown improved financial results, (c) the obligor of or insurer of such Collateral Asset since the date on which such Collateral Asset was purchased by the Issuer has raised significant equity capital or has raised other capital that has improved the liquidity or credit standing of such obligor or insurer, (d) in the case of an Asset-Backed Security or a Mortgage-Backed Security, a statistically significant improvement in the quality of the underlying pool of assets or an increase in the level of subordination or (e) such Collateral Asset has decreased its spread over the interest rate on the applicable U.S. Treasury Benchmark or the applicable swap benchmark by an amount exceeding 0.50%*; provided*, that:

(i) at the time of determination, Moody's has not withdrawn or reduced long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or withdrawn or reduced its long term ratings on any of the Class C Notes or Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn rating of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes to at least their initial long term rating, as applicable; or

(ii) if Moody's has withdrawn or reduced its long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or withdrawn or reduced its long term ratings on any of the Class C Notes or Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn rating of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes to at least their initial long term rating, as applicable, (a) such Collateral Asset has been upgraded by Moody's at least one rating subcategory since it was acquired by the Issuer or put on a watch list by Moody's for possible upgrade or (b) since the date on which such Collateral Asset was purchased by the Issuer, there has been a decrease in spread over the interest rate on the applicable

U.S. Treasury Benchmark by (y) 0.20% or more, in the event that the original credit spread was 0.50% or more or (z) 0.10% or more, in the event that the original credit spread was under 0.50% or, in the case of floating rate assets, has increased in price to 101% or more of its original purchase price paid by the Issuer due primarily to credit-related reasons as determined by the Collateral Manager in its judgment. A Credit Improved Obligation may only be sold during the Reinvestment Period and only if in the Collateral Manager's reasonable business judgment one or more substitute Collateral Assets can be purchased such that after giving effect to such sale and to the purchase of substitute Collateral Assets with the Sale Proceeds thereof, the Reinvestment Criteria will be satisfied.

Notwithstanding the foregoing, if no Event of Default has occurred and is continuing, any Collateral Asset which is not a Defaulted Obligation, a Credit Risk Obligation, a Credit Improved Obligation, equity security or Synthetic Security in the form of a Default Swap may be disposed of by the Issuer during the Reinvestment Period (each such sale, a "Discretionary Sale") so long as (i) the aggregate Principal Balance of Collateral Assets sold in Discretionary Sales during the annual period from and including the Closing Date to but excluding the date that is one year following the Closing Date and during each successive one-year period from and including such anniversary date to but excluding the anniversary date occurring in the following calendar year (an "Annual Period") through the end of the Reinvestment Period does not exceed 25% of the Aggregate Principal Amount measured as of the Closing Date, in the case of the first Annual Period and 15% of the Aggregate Principal Amount measured as of the beginning of the related Annual Period, in the cases of each Annual Period thereafter; *provided* that the percentage of the Aggregate Principal Amount permitted to be traded on a discretionary basis during the related Annual Period will be reduced to 7.5% if the Class A/B Overcollateralization Ratio is less than 104.8% and no discretionary trading will be permitted if the Class A/B Overcollateralization Ratio is ever less than 103.5%; and (ii) the ratings assigned to any of the Class A Notes or the Class B Notes by Moody's as of the Closing Date have not been withdrawn or reduced by one or more subcategories since the Closing Date and the ratings assigned to any of the Class C Notes or the Class D Notes by Moody's as of the Closing Date have not been withdrawn or reduced by two or more subcategories since the Closing Date. During the Reinvestment Period, the Sale Proceeds of any Discretionary Sale may be reinvested *provided* the Reinvestment Criteria are satisfied.

For purposes of determining whether a Collateral Asset may be sold as specified above, Synthetic Securities shall be treated as Collateral Assets containing the same coupon, maturity and Principal Balance of such Synthetic Security.

Notwithstanding the foregoing restrictions, the Issuer may also in the case of an Optional Redemption or Tax Redemption, as applicable, direct the Trustee to sell, and the Trustee shall sell in the manner directed by the Collateral Manager in writing, the Collateral Assets and liquidate the remaining Collateral; *provided*, that the criteria for an Optional Redemption or Tax Redemption, as applicable, can be demonstrably met prior to any such sale. In connection with an Auction, if the Collateral Manager receives timely bids (which are each "firm offers") that are, in the aggregate, at least equal to the Minimum Bid Amount, the Collateral Manager will sell the Collateral Assets. See "Description of the Notes and the Class E Shares—Optional Redemption and Tax Redemption" and "—Auction."

Reinvestment Criteria

Any Principal Proceeds (and after the Reinvestment Period, Unscheduled Principal Payments and Sale Proceeds from the disposition of Credit Risk Obligations) may be reinvested in Collateral Assets if, after such investment or reinvestment, the following criteria are satisfied (the "Reinvestment Criteria"):

(i) such security is a Collateral Asset;

(ii) such Collateral Asset meets all of the Eligibility Criteria;

(iii) if the Weighted Average Coupon is less than the current LIBOR as determined by the Note Calculation Agent for the Interest Accrual Period during which such reinvestment occurs, any Fixed Rate Assets or Deemed Fixed Collateral Assets acquired must have an interest rate greater than such current LIBOR;

(iv) each of the Collateral Profile Tests is satisfied as set forth in the definition thereof;

(v) (a) each of the Collateral Quality Tests is satisfied or (b) if immediately prior to such acquisition one or more of such Collateral Quality Tests was not satisfied, (1) the level of compliance with respect to each such Collateral Quality Test not satisfied must be maintained or improved; and (2) the level of compliance with each other Collateral Quality Test may not be made worse after such acquisition except to the extent that a reduction in the level of compliance does not result in non-compliance; *provided*, that any Collateral Asset acquired with Sale Proceeds of a Credit Risk Obligation need not comply with the S&P CDO Monitor Test;

(vi) no Event of Default has occurred and is continuing on such date;

(vii) each of the Class A/B Coverage Tests and Class C Coverage Tests is satisfied following any investment*; provided, however*, with respect to any reinvestment of Sale Proceeds (other than Sale Proceeds from Credit Risk Obligations), if, as calculated immediately prior to such reinvestment, any Class A/B Coverage Test or Class C Coverage Test was not satisfied prior to such reinvestment, the coverage ratio relating to such test will be at least as close to being satisfied after giving effect to such reinvestment as it was before giving effect to the transaction that generated such Sale Proceeds*; provided further* that, with respect to reinvestment of Sale Proceeds from Credit Risk Obligations, if measured immediately after the sale of such Credit Risk Obligation but prior to any reinvestment, any Class A/B Coverage Test or Class C Coverage Test was not satisfied, the coverage ratio relating to such test will be at least as close to being satisfied after giving effect to such reinvestment as it was immediately before giving effect to such reinvestment;

(viii) the Actual Rating or Implied Rating by S&P of any Collateral Asset acquired after the Reinvestment Period is at least equal to the Actual Rating or Implied Rating by S&P with respect to the Collateral Asset which gave rise to the proceeds used to acquire such Collateral Asset; and

(ix) with respect to the reinvestment of Unscheduled Principal Payments and Sale Proceeds from Credit Risk Obligations after the Reinvestment Period, in addition to clauses (i) - (viii) above, (a) the remaining expected average life of Collateral Assets purchased with Unscheduled Principal Payments or Sale Proceeds from Credit Risk Obligations must not exceed the remaining expected average life of the Collateral Asset which gave rise to such Unscheduled Principal Payments or Sale Proceeds as calculated by the Collateral Manager (as measured relative to *pro forma* expectations as of the date of purchase and not the date of redemption or prepayment in whole), (b) the Collateral Quality Tests must be satisfied (not maintained or improved) after giving effect to any reinvestment of Sale Proceeds of Credit Risk Obligations and (c) the Class C Overcollateralization Ratio must be at least equal to 102.2%.

For the purpose of the Reinvestment Criteria, the assessment of whether any Collateral Profile Test, Collateral Quality Test or Coverage Test is maintained or improved as the result of the reinvestment of any Sale Proceeds (other than Sale Proceeds generated by the sale of a Defaulted Obligation or Credit Risk Obligation) shall be based upon the Collateral Profile Test, Collateral Quality Test or Coverage Test, as applicable, immediately prior to the sale transaction that generated such Sale Proceeds.

If the Issuer has previously entered into a commitment to acquire an obligation or security in order to be acquired for inclusion in the Collateral, then the Issuer must comply with each of the Reinvestment Criteria on the date on which the Issuer entered into such commitment, and need not comply with the Reinvestment Criteria with respect to such obligation or security on the date of acquisition.

Notwithstanding the foregoing provisions, if an Event of Default shall have occurred and be continuing, no Collateral Asset may be acquired unless it was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default.

Accounts

Pursuant to the Indenture, the Issuer shall cause there to be opened and at all times maintained the Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account, the Hedge Termination Receipts Account, the Hedge Replacement Account, the Hedge Collateral Account, the Currency Swap Collateral Account, the Currency Swap Receipts Termination Account, the Currency Swap Replacement Account, the Securities Lending Account, the Synthetic Security Collateral Account, the Put Collateral Account, the CP Principal Reserve Account, the CP Interest Reserve Account and the Default Swap Collateral Account (each as defined herein), each of which shall be a trust account established with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties (and in the case of the Default Swap Collateral Account, the Synthetic Security Counterparties), as further described in the Indenture and may be divided into subaccounts for administrative purposes. Each Account (other than the Payment Account) shall constitute a "securities account" under the Uniform Commercial Code of the State of New York, shall be under the exclusive control of the Trustee and shall be maintained by the Securities Intermediary (as long as it is an Eligible Depositary) or another "Eligible Depositary." An "Eligible Depositary" shall be a financial institution organized under the laws of the United States or any state thereof, authorized to accept deposits, having a combined capital and surplus of at least $200,000,000, and having (or if its obligations are guaranteed by its parent company, its parent having), a long term debt rating of at least "Baa1" by Moody's and "BBB+" by S&P and a short term debt rating of "P-1" by Moody's and at least "A-1" by S&P.

All distributions on the Collateral Assets and any proceeds received from the disposition of any Collateral Asset (unless simultaneously reinvested in substitute Collateral Assets subject to the Reinvestment Criteria), and all amounts transferred to the Issuer from the Synthetic Security Collateral Account prior to the Business Day prior to a Payment Date will be remitted to the Collection Account and will be available, together with reinvestment earnings thereon, for application in accordance with the Priority of Payments and for the acquisition of substitute Collateral Assets under the circumstances and pursuant to the requirements described herein and in the Indenture.

On the Business Day prior to each Payment Date (the "Transfer Date"), the Trustee is required to deposit into the Payment Account all funds (including any reinvestment income) in the Collection Account and any Hedge Receipt Amount, received on or after the Transfer Date related to such Payment Date for application in accordance with the Priority of Payments.

Proceeds from the issuance and sale of the Securities and the initial CP Notes and initial payments from the initial Interest Rate Swap Agreement shall be deposited in the Collection Account, until such amounts are used to purchase Collateral Assets or otherwise applied in accordance with the Priority of Payments.

Principal Proceeds received during the Reinvestment Period that have not been reinvested in substitute Collateral Assets upon the receipt of such Principal Proceeds shall be deposited in the Collection Account and invested in Eligible Investments until such Principal Proceeds are reinvested in Collateral Assets in accordance with the Reinvestment Criteria or applied in accordance with the Priority of Payments.

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Issuers and the expenses of offering the Notes, at least $100,000 from the proceeds associated with the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Reserve Account"). On each Payment Date, to the extent that funds are available for such purpose in accordance with and subject to the limitations of the Priority of Payments, the Trustee is required to deposit into the Expense Reserve Account an amount from Proceeds equal to the lesser of $25,000 and the amount necessary to bring the balance of the Expense Reserve Account to $275,000. On each Transfer Date, the Trustee, in accordance with the Note Valuation Report, will transfer funds from the Expense Reserve Account to the Payment Account in an amount equal to the lesser of (i) the amount by which the amounts payable under clause (3)(a), (3)(b), (19)(a) and (19)(b) of the Priority of Payments exceed $25,000 and (ii) the balance in the Expense Reserve Account. Amounts on deposit in the Expense Reserve Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses of the Issuers. All funds on deposit in the Expense Reserve Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be transferred by the Trustee to the Payment Account for application as Proceeds on the immediately succeeding Payment Date.

On or prior to the Closing Date the Trustee will establish the CP interest reserve account (the "CP Interest Reserve Account") and the CP principal reserve account (the "CP Principal Reserve Account" and, together with the CP Interest Reserve Account, the "CP Reserve Accounts"), each in the name of the Trustee for the benefit and on behalf of the Secured Parties and over which the Trustee will have exclusive control and the sole right of withdrawal. The Trustee shall, from time to time, withdraw amounts from the CP Reserve Accounts for use by the CP Issuing and Paying Agent to make payments on maturing CP Notes pursuant to the CP Issuing and Paying Agency Agreement. If on any Determination Date, the Trustee determines that amounts expected to be on deposit in the CP Interest Reserve Account on the related Payment Date taking into account amounts expected to be withdrawn from and deposit to such account on such Payment Date exceed the CP Interest Reserve Required Amount, such excess amount will be transferred to the Payment Account on the related Transfer Date for distribution as interest proceeds in accordance with the Priority of Payments on such Payment Date. The Trustee shall transfer all amounts and deposit all amounts required to be deposited in the CP Reserve Accounts in accordance with the Priority of Payments and the Put Agreement. See "Description of the Notes and the Class E Shares—Priority of Payments".

Securities Lending Collateral pledged pursuant to a related Securities Lending Agreement shall be deposited into a segregated trust account (the "Securities Lending Account") and held therein pursuant to the related Securities Lending Agreement. Upon any default by any Securities Lending Counterparty under the related Securities Lending Agreement, the Collateral Manager on behalf of the Issuer shall promptly exercise its remedies under such Securities Lending Agreement, including liquidating the related Securities Lending Collateral. Proceeds of any such liquidation shall be treated as Principal Proceeds deposited in the applicable Account.

Some Synthetic Securities may require that the Issuer purchase or post Default Swap Collateral as security for its obligations under such Synthetic Security. The Default Swap Collateral shall be deposited in a segregated trust account (the "Default Swap Collateral Account"), with each item of Default Swap Collateral pledged in connection with each Synthetic Security deposited into a separate subaccount relating to the Synthetic Security for which the Issuer has pledged such Default Swap Collateral. The Default Swap Collateral Account, including each such subaccount thereunder, shall be established in the name of the Trustee.

In the event any Hedge Counterparty fails to maintain the ratings required under the Hedge Agreement, such Hedge Counterparty will be required to (i) post collateral under the terms of the related Hedge Agreement; (ii) transfer its rights and obligations upon 10 days' prior notice to a replacement Hedge Counterparty with higher ratings in accordance with the Hedge Agreement subject to satisfaction of the Rating Agency Condition; (iii) obtain a guarantor for such Hedge Counterparty's obligations meeting certain ratings requirements; or (iv) take such other steps as each Rating Agency may require. The

Hedge Collateral pledged by such Hedge Counterparty will be deposited by the Trustee into a segregated account (the "Hedge Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the related Hedge Agreement. Each item of collateral deposited in the Hedge Collateral Account will be deposited in a separate subaccount relating to the Hedge Agreement for which the related Hedge Counterparty has pledged such collateral.

In the event any Synthetic Security Counterparty fails to maintain the ratings required under the Synthetic Security Agreement, such Synthetic Security Counterparty will be required to post collateral under the terms of the related Synthetic Security Agreement unless the Synthetic Security Agreement is assigned to, or the Synthetic Security Counterparty is replaced with, a Synthetic Security Counterparty which has, or whose guarantor has, such required ratings. The Synthetic Security collateral pledged by such Synthetic Security Counterparty will be deposited by the Trustee into a segregated account (the "Synthetic Security Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the related Synthetic Security Agreement. Each item of collateral deposited in the Synthetic Security Collateral Account will be deposited in a separate subaccount relating to the Synthetic Security Agreement for which the related Synthetic Security Counterparty has pledged such collateral.

Amounts retained in the Accounts during a Due Period will be invested in Eligible Investments. An "Eligible Investment" means any U.S. Dollar-denominated investment that, at the time it is delivered to the Trustee, is one or more of the following obligations or securities: (i) direct Registered obligations of, and Registered obligations fully guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States; (ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any depository institution or trust company incorporated in the United States or any state thereof, which depository institution or trust company is subject to supervision and examination by federal or state authorities, with a maturity not in excess of 183 days; (iii) repurchase obligations with respect to (a) any security described in clause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States, entered into with a depository institution or trust company described in clause (ii) above or entered into with a corporation whose long term senior unsecured rating is at least "A1" by Moody's and "A+" by S&P and whose short term credit rating is "P-1" by Moody's and "A-1" by S&P at the time of such investment, with a term not in excess of three months; (iv) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of at least "Aa3" or "P-1" by Moody's and "A+" or "A-1" by S&P; (v) commercial paper or other short term obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof located in the United States or any of its territories, such commercial paper or other short term obligations having a credit rating of "P-1" by Moody's and "A-1" by S&P, and that are Registered and either are interest bearing or are sold at a discount from the face amount thereof and have a maturity of not more than three months from their date of issuance; and (vi) offshore money market funds which have a credit rating of not less than "Aaa/MR1+" by Moody's and "AAA" or "AAAm" or "AAAm-G" by S&P, *provided however*, that each rating in clauses (iii)-(vi) above by Moody's or S&P shall be an Actual Rating. Eligible Investments shall not include any Mortgage-Backed Security, any inverse floater, any Interest Only Security, any principal only security (other than treasury bills or commercial paper) or any security with a price in excess of par or any security the repayment of which is dependent on substantial non-credit related risk as reasonably determined by the Collateral Manager. Each such Eligible Investment shall mature no later than the second Business Day immediately preceding the Payment Date next following the Due Period in which the date of investment occurs, unless such Eligible Investment is issued by the institution acting as Securities Intermediary, in which event such Eligible Investment may mature on the Business Day preceding such Payment Date. Eligible Investments may include those investments with respect to which the Securities Intermediary, the Trustee, the Collateral Manager, the Initial Purchaser or an affiliate of the Securities Intermediary, the Trustee, the Collateral Manager or the Initial Purchaser provides services and/or receives compensation. As used in this definition, ratings may not include ratings with an "r", "t" or "Pi" subscript.

Synthetic Securities

Synthetic Securities will be purchased or entered into by the Issuer for such purposes as (i) structuring an investment in a Reference Obligation with a desired maturity, currency or interest rate which otherwise may be inconsistent with the criteria for purchasing Collateral Assets; (ii) achieving yield enhancement based on the coupon payments by a Reference Obligor; or (iii) establishing recovery floors or other means of credit protection as a result of defaults on Reference Obligations. Synthetic Securities will not be used as a means of making future advances to a Synthetic Security Counterparty. The Issuer shall not purchase a Synthetic Security unless it is commercially impractical for the Issuer to purchase the related Reference Obligation for such Synthetic Security (or a security of the Reference Obligor comparable thereto) or unless such Reference Obligation is a debt instrument that the Collateral Manager believes is more desirable as a Collateral Asset with a change to the maturity, coupon, currency or recovery rate criteria applicable to the Reference Obligation or the Issuer otherwise believes that its purchase of the Synthetic Security is on commercial terms more favorable to the Issuer than the terms that would have been available to the Issuer if the Issuer had purchased directly the Reference Obligation to which the Synthetic Security relates (or a security of the Reference Obligor comparable thereto) (including, for the avoidance of doubt, economic benefits such as yield enhancement, recovery floor or other means of credit protection that the Synthetic Security provides). The Issuer shall not purchase any Synthetic Security the terms of which do not entitle the holder thereof to receive a principal amount at least equal to the full face amount of such Synthetic Security upon the maturity thereof, unless such Synthetic Security constitutes a Step-Up Bond.

Synthetic Security Counterparty Ratings

Each Synthetic Security Counterparty (i) shall have, or the long term senior unsecured debt of such entity shall have (which ratings must, with respect to any Synthetic Security Counterparty, be Actual Ratings) certain minimum ratings by Moody's and S&P as shall be set forth in the Indenture (such ratings, the "Synthetic Security Counterparty Required Ratings"), or (ii) shall satisfy the Rating Agency Condition. In the event either the rating of a Synthetic Security Counterparty or the long term unsecured debt rating of a Synthetic Security Counterparty has been withdrawn by either Rating Agency or downgraded below the Synthetic Security Counterparty Required Ratings, the Synthetic Security Counterparty shall notify the Trustee, the Issuer, and the Collateral Manager of such withdrawal or downgrade and such Synthetic Security Counterparty shall be required within 30 days of the date of such downgrade or withdrawal to (i) post collateral in an amount sufficient to satisfy the Rating Agency Condition, (ii) assign the related Synthetic Security to a replacement Synthetic Security Counterparty which satisfies the Synthetic Security Counterparty Required Ratings or (iii) obtain a guarantor of its obligations under the Synthetic Security which satisfies the Synthetic Security Counterparty Required Ratings. The failure of any Synthetic Security Counterparty to post collateral, assign the Synthetic Security or secure a guarantor as described in the preceding sentence will constitute a termination event under the terms of the related Synthetic Security.

Synthetic Securities Structured as Default Swaps

As part of the purchase of a Synthetic Security, the Issuer may be required to purchase or post cash, securities or other collateral for the benefit of the Synthetic Security Counterparty, including without limitation an up-front payment of cash or delivery of securities by the Issuer ("Default Swap Collateral"). Under the terms of the Indenture, all Default Swap Collateral is required to be deposited in the Default Swap Collateral Account and shall be credited to clearly identified subaccounts with respect to each Synthetic Security for which Default Swap Collateral is deposited. The Issuer will also grant to the Trustee for the benefit of the Secured Parties, a security interest in any Default Swap Collateral, subject to the first priority security interest of the related Synthetic Security Counterparty, and shall notify the Synthetic Security Counterparty of such security interest and obtain the Synthetic Security Counterparty's acknowledgment of the Trustee's security interest on behalf of the Secured Parties.

Interest payments, redemption premiums, dividend distributions, investment earnings on and any fees paid with respect to any Default Swap Collateral will constitute property of the Issuer and will be deposited into the Collection Account and treated as Proceeds unless such amounts are required to be paid to the related Synthetic Security Counterparty under the terms of the related Synthetic Security. Principal payments on the Default Swap Collateral prior to the termination of the Synthetic Security shall be held in the related subaccount of the Default Swap Collateral Account and invested in Eligible Investments until reinvested in Default Swap Collateral at the direction of the Collateral Manager on behalf of the Issuer.

In the event a Synthetic Security structured as a Default Swap is terminated prior to its scheduled maturity without the occurrence of a "credit event," the Collateral Manager on behalf of the Issuer shall cause such portion of the related Default Swap Collateral required to make any termination payment owed to the Synthetic Security Counterparty to be delivered to the Synthetic Security Counterparty and the remaining related Default Swap Collateral to the extent not required to be pledged to the related Synthetic Security Counterparty shall be released from the lien of the Synthetic Security Counterparty and delivered to the Trustee free of such lien. In the event that no "credit event" under a Synthetic Security structured as a Default Swap has occurred prior to the termination or scheduled maturity of the Synthetic Security, upon the termination or scheduled maturity of the Synthetic Security, the Synthetic Security Counterparty's lien on the Default Swap Collateral related to such Synthetic Security shall be released and the Collateral Manager on behalf of the Issuer shall cause such Default Swap Collateral to be delivered to the Trustee free of such lien. Upon release of the lien of the Synthetic Security Counterparty, the Collateral Manager shall direct the Trustee to take any specific actions necessary to create in favor of the Trustee a valid, perfected, first-priority security interest in such Default Swap Collateral under applicable law. Any Default Swap Collateral released from the lien of the Synthetic Security Counterparty which satisfies the definition of an Eligible Investment shall be treated as an Eligible Investment and any Default Swap Collateral released from the lien of the Synthetic Security Counterparty which satisfies the definition of a Collateral Asset shall be treated as a Collateral Asset and in either case may be retained by the Trustee or sold by the Collateral Manager at the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation, Credit Risk Obligation or Credit Improved Obligation*; provided* that no Event of Default has occurred and is continuing. Any cash received upon the maturity or liquidation of the Default Swap Collateral released from the lien of the Synthetic Security Counterparty shall be deemed to be (a) Principal Proceeds, if the Synthetic Security was terminated at its scheduled maturity, (b) Sale Proceeds, if the Synthetic Security was terminated, sold or assigned by the Collateral Manager prior to its scheduled maturity, or (c) Unscheduled Principal Payments, if the Synthetic Security was subject to early termination other than by the Collateral Manager.

Upon the occurrence of a "credit event" under a Synthetic Security structured as a Default Swap, at the direction of the Collateral Manager, the related Default Swap Collateral will be delivered to the Synthetic Security Counterparty, to the extent required, upon delivery of a Deliverable Obligation to the Issuer. A Deliverable Obligation may be included as a Collateral Asset if it satisfies the Eligibility Criteria (except that it is not required to satisfy clause (xi), (xix) and (xxiv) of the General Eligibility Criteria and clause (ii) of the Interest Only Security Eligibility Criteria) and may be delivered to the Issuer notwithstanding that it may cause the Issuer to fail a Collateral Profile Test. In the event a "credit event" has occurred and the Issuer is required to deliver the Default Swap Collateral to the Synthetic Security Counterparty or to liquidate the Default Swap Collateral and deliver cash, the Synthetic Security Counterparty will bear any market risk on the liquidation of the Default Swap Collateral.

Hedge Agreements

General. From time to time the Issuer will enter into one or more Interest Rate Swap Agreements, Cashflow Swap Agreements or Currency Swap Agreements (collectively, "Hedge Agreements") in order to protect against interest rate risk, mismatches in the timing of cash flows received from the Collateral Assets and the Payment Dates on the Notes and maturing CP Notes during certain periods, and currency risk. On the Closing Date, the Issuer will enter into an Interest Rate Swap

Agreement and two Cashflow Swap Agreements with AIG Financial Products Corp. ("AIG FP") as initial Hedge Counterparty. The Issuer shall not enter into (i) any additional Hedge Agreement (other than Currency Swap Agreements) without obtaining the consent of AIG FP (such consent not to be unreasonably withheld) which consent, in the case of Interest Rate Swap Agreements that are Deemed Fixed Asset Hedges or Deemed Floating Asset Hedges, shall only be required if such proposed Hedge Agreement would cause the notional amount of all Interest Rate Swap Agreements to exceed certain limits set forth in the Indenture and which consent shall only be required as long as AIG FP remains a Hedge Counterparty, and (ii) any additional Hedge Agreement unless the Rating Agency Condition is satisfied; (such Rating Agency Condition, the "Applicable Rating Agency Condition"); *provided* that the Issuer will not have to satisfy any Rating Agency Condition (i) when entering into an Interest Rate Swap Agreement or amending or modifying an existing Interest Rate Swap Agreement (other than with respect to rate, term and any provisions for deferral of amounts otherwise payable to the Hedge Counterparty) in connection with Deemed Floating Asset Hedges or Deemed Fixed Asset Hedges using Form-Approved Hedge Agreements unless such Hedge Agreement is with a new Interest Rate Swap Counterparty or (ii) when entering into Currency Swap Agreements using Form-Approved Currency Swap Agreements.

The Issuer shall ensure that each Hedge Agreement shall provide that the Issuer will have the option to terminate such Hedge Agreement without cause, in whole or in part, at any time upon payment (or receipt) of a make-whole payment and upon satisfaction of the Applicable Rating Agency Condition. The Issuer shall also ensure that termination of any Interest Rate Swap Agreement or any Cashflow Swap Agreement shall be subject to consent of the initial Hedge Counterparty (such consent not to be unreasonably withheld) if the initial Hedge Counterparty is still a Hedge Counterparty at such time and if the termination of such Hedge Agreement is not in connection with a default by the Hedge Counterparty under the terms of the Hedge Agreement or a termination event in which the Issuer is an "Affected Party" (as such term is defined in the Hedge Agreement).

Payments (other than Defaulted Hedge Termination Payments) due to any Hedge Counterparty under any Hedge Agreement shall be paid, in accordance with the Priority of Payments, prior to any payments on the Notes, from Proceeds available therefor on each Payment Date. The claims of each Hedge Counterparty shall rank equally and *pari passu* with the claims of other Hedge Counterparties entitled to receive payments at the same level of priority within the Priority of Payments. Defaulted Hedge Termination Payments shall be paid immediately after payment of Principal Proceeds to the Notes in accordance with the Priority of Payments.

Each Hedge Agreement shall provide that if: (A) the long term issuer credit rating by S&P of the Hedge Counterparty (or its guarantor, if the Hedge Counterparty is AIG FP or another Hedge Counterparty the obligations of which are supported by a guarantor) is withdrawn, suspended or falls below "AA-" or, with respect to a Currency Swap Agreement, to or below "AA"; (B) the short term issuer credit rating by S&P of the Hedge Counterparty (or its guarantor if the Hedge Counterparty is AIG FP or another Hedge Counterparty the obligations of which are supported by a guarantor) is withdrawn, suspended or falls below "A-1+"; (C) the long term senior unsecured debt rating by Moody's of the Hedge Counterparty (or its guarantor if the Hedge Counterparty is AIG FP or another Hedge Counterparty the obligations of which are supported by a guarantor) is withdrawn, suspended or falls to "Aa3" and is on credit watch for possible downgrade or below "Aa3", if such Hedge Counterparty (or its guarantor if the Hedge Counterparty is AIG FP or another Hedge Counterparty the obligations of which are supported by a guarantor) has a long term senior unsecured debt rating only; or (D) the long term senior unsecured debt rating of the Hedge Counterparty (or its guarantor if the Hedge Counterparty is AIG FP or another Hedge Counterparty the obligations of which are supported by a guarantor) is withdrawn, suspended or falls to "A1" and is on credit watch for possible downgrade or below "A1", or the short term senior unsecured debt rating of the Hedge Counterparty or, if no such rating is available, its guarantor or, if no such rating is available, a guaranteed affiliate thereof from Moody's, if the Hedge Counterparty's or guarantor's short term obligations are rated by Moody's, is "P-1" and on credit watch for possible downgrade or falls below "P-1"; then the Hedge Counterparty shall be required to within 30 days, (i) post collateral as required under the Hedge Agreements, (ii) transfer its rights and obligations to a replacement Hedge Counterparty who has a long term senior unsecured debt rating of at least "Aa2", or at least "Aa1"

in the case of a Currency Swap Agreement, by Moody's and who has a short term unsecured debt rating from Moody's, if rated by Moody's, of at least "P-1" and not on credit watch for possible downgrade, and whose short term issuer credit rating by S&P is not lower than "A-1+" and whose long term issuer credit rating by S&P is not lower than "AA" (collectively, the "Replacement Hedge Counterparty Ratings Requirement"); *provided* that (1) such replacement Hedge Counterparty will not be required to withhold or deduct on account of tax under the Hedge Agreements, (2) a termination event or event of default does not occur under the Hedge Agreements as a result of such assignment and (3) the Rating Agency Condition is satisfied; (iii) obtain a guarantor for the Hedge Counterparty's obligations under the Hedge Agreements which has a long term issuer credit rating by S&P of at least "AA-", or at least "AA" in the case of the Currency Swap Agreement, or a short term issuer credit rating from S&P of at least "A-1+" and which has a long term unsecured debt rating from Moody's of at least "Aa3", or, in the case of a Currency Swap Agreement, of at least "Aa1", and a short term unsecured debt rating from Moody's, if rated by Moody's, of at least "P-1", or (iv) take such other steps as each Rating Agency may require to cause the obligations of the Hedge Counterparty to be treated by each such Rating Agency as if such obligations were owed by an entity with a long term senior unsecured rating of not lower than "Aa2", or, in the case of a Currency Swap Agreement, not lower than "Aa1", by Moody's and "AA" by S&P. If the Hedge Counterparty fails to comply with at least one of the obligations as set forth in clauses (i)-(iv) of the preceding sentence, or if certain further downgrades occur, a substitution event shall have occurred (a "Hedge Counterparty Substitution Event"). Upon the occurrence of a Hedge Counterparty Substitution Event, the Hedge Counterparty will be required to within 30 days assign its rights and obligations under such Hedge Agreement to a new Hedge Counterparty in accordance with the terms of the Hedge Agreements, *provided* that such substitute Hedge Counterparty or its guarantor has (x) a long term senior unsecured debt rating from Moody's of at least "Aa2", or "Aa1" in the case of a Currency Swap Agreement, and a short term senior unsecured debt rating from Moody's, if rated by Moody's, of at least "P-1", and (y) a short term issuer credit rating by S&P not lower than "A-1+" and a long term senior unsecured debt rating by S&P not lower than "AA", or if no short term issuer credit rating is available, a long term senior unsecured debt rating by S&P of not lower than "AAA", and the Rating Agency Condition is satisfied.

Each Hedge Agreement may be terminated, whether or not the Notes have been paid in full on or prior to such termination, upon (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the related Hedge Counterparty, (ii) failure on the part of the Issuer or the related Hedge Counterparty to make any payment under the Hedge Agreement within the applicable grace period, (iii) certain withholding or other taxes being imposed on payments to be made under the Hedge Agreement as set forth in Section 5(b)(ii) and (iii) of the ISDA Master Agreement incorporated in the Hedge Agreement, (iv) a change in law making it illegal for either the Issuer or the related Hedge Counterparty to be a party to, or perform an obligation under, the Hedge Agreement, (v) the delivery of notice of liquidation of any of the Collateral following an Event of Default in accordance with the Indenture, (vi) the merger of the Issuer with another entity without assumption of the Hedge Agreements by the new entity, (vi) a replacement agreement being entered into by the Issuer with a new Hedge Counterparty following a Collateralization Event, (vii) the failure by the Hedge Counterparty to assign its rights and obligations to a substitute party within 30 days after the occurrence of a Hedge Substitution Event, (viii) a breach, misrepresentation, cross default or credit event upon merger by the Hedge Counterparty, (ix) certain additional termination events including optional redemptions, tax redemptions, auctions and mandatory redemptions, (x) the reduction of the Aggregate Outstanding Amount of all of the Notes or only the Class A Notes and the Class B Notes to zero, and (xi) the Issuer's execution of supplements or amendments to certain Transaction Documents without the consent of the related Hedge Counterparty, to the extent such consent is required in accordance with the terms of those Transaction Documents.

A termination of a Hedge Agreement will not constitute an Event of Default under the Indenture. Although the Issuer believes that any such termination is unlikely, the Issuer has agreed to use reasonable efforts to enter into a substitute Hedge Agreement on similar terms to the extent that the Issuer is able to enter into such an agreement, and shall apply any termination receipts to the purchase of a new Hedge Agreement. If the Issuer is unable to obtain a substitute Hedge Agreement, interest due on

the Notes will be paid from amounts received on the Collateral Assets without the benefit of any Hedge Agreement. There can be no assurance that such amounts will be sufficient to provide for the full payment of interest on the Notes, or that amounts that would otherwise be distributable to the Holders of the Class E Shares will not be reduced.

In the event of any early termination of a Hedge Agreement (i) any hedge termination receipts will be deposited in a single, segregated trust account held in the name of the Trustee (the "Hedge Termination Receipts Account") for the benefit of the Secured Parties and (ii) any amounts received from a replacement counterparty in consideration for entering into a substantially similar replacement agreement that preserves for the Issuer the economic equivalent of the terminated Hedge Agreement ("Hedge Replacement Proceeds") will be deposited in a single, segregated trust account held in the United States with the Securities Intermediary in the name of the Trustee (the "Hedge Replacement Account") for the benefit of the Secured Parties.

The Collateral Manager may cause the Issuer, promptly following the early termination of a Hedge Agreement (other than on an Exception Payment Date, an Auction Payment Date or the date of an acceleration of the Notes due to an Event of Default) and to the extent possible through application of funds available in the Hedge Termination Receipts Account, to enter into a replacement Hedge Agreement (a "Replacement Hedge Agreement") which may have different terms, including different notional amounts, *provided* that the Applicable Rating Agency Condition has been satisfied (unless satisfaction of the Applicable Rating Agency Condition is not required in connection with Deemed Floating Asset Hedges and Deemed Fixed Asset Hedges using Form-Approved Hedge Agreements with an existing Interest Rate Swap Counterparty or with Currency Swap Agreements using Form-Approved Currency Swap Agreements).

If (i) the funds available in the Hedge Termination Receipts Account exceed the costs of entering into a Replacement Hedge Agreement, (ii) the Collateral Manager determines not to replace the terminated Hedge Agreement and the Applicable Rating Agency Condition is satisfied, or (iii) the termination is occurring on an Exception Payment Date, an Auction Payment Date or the date of an acceleration of the Notes due to an Event of Default, then amounts in the Hedge Termination Receipts Account (after providing for the costs of entering into a Replacement Hedge Agreement, if any) will be transferred to the Collection Account on the next following Transfer Date and will be treated as Principal Proceeds and be distributed in accordance with the Priority of Payments on the next Payment Date (or on such Exception Payment Date, Auction Payment Date or the date of acceleration of the Notes due to an Event of Default, in the event of a redemption of the Notes).

If a Hedge Agreement is terminated and the costs of entering into a Replacement Hedge Agreement exceed the funds on deposit and available therefor in the Hedge Termination Receipts Account, then, after using the funds in the Hedge Termination Receipts Account, the Issuer may enter into a Replacement Hedge Agreement with the amount of such shortfall payable to the replacement Hedge Counterparty in accordance with the Priority of Payments on following Payment Dates.

The amounts in the Hedge Replacement Account will be applied directly to the payment of termination amounts owing to the Hedge Counterparties, if any. To the extent not fully paid from Hedge Replacement Proceeds, such amounts will be payable to the Hedge Counterparties on subsequent Payment Dates in accordance with the Priority of Payments. To the extent that the funds available in the Hedge Replacement Account exceed any such termination amounts (or if there are no termination amounts), the excess amounts in the Hedge Replacement Account will be transferred to the Collection Account on the next Transfer Date and will be treated as Principal Proceeds and distributed in accordance with the Priority of Payments on the next Payment Date. If the termination amounts owing to Hedge Counterparties exceed the Hedge Replacement Proceeds for such agreements, then, unless such amounts represent Defaulted Hedge Termination Payments, they will be paid before funds are applied to pay principal or interest on any Notes in accordance with the Priority of Payments.

In order to effect an Optional Redemption, Tax Redemption or Auction or liquidation of the Collateral following an Event of Default, the Hedge Agreements must be terminated and the proceeds from such termination and from the liquidation of the remaining Collateral must be sufficient to pay any termination payment owing to the Hedge Counterparties in addition to any amounts owing under the Notes and certain other expenses. The Indenture will not permit the termination of a Hedge Agreement in connection with the liquidation of Collateral following an Optional Redemption, Tax Redemption or Auction or Event of Default prior to the time that the Collateral Manager shall have furnished to the Trustee evidence that the Issuer has entered into one or more binding agreements with a purchaser whose short term debt obligations are rated at least "P-1" by Moody's and "A-1+" by S&P, to purchase such Collateral and the termination of each Hedge Agreement on a date not later than 10 days after such termination.

The Issuer may not terminate any Hedge Agreement (other than an Interest Rate Swap Agreement in connection with Deemed Floating Asset Hedges or Deemed Fixed Asset Hedges) without satisfaction of the Applicable Rating Agency Condition and may not terminate a Hedge Agreement that is an Interest Rate Swap Agreement or Cashflow Swap Agreement without the consent of AIG FP (such consent not to be unreasonably withheld) if AIG FP is still a Hedge Counterparty unless such termination is in connection with a default by AIG FP or a termination event in which the Issuer is an "Affected Party" as defined in the Hedge Agreement.

Subject to the terms of the Hedge Agreement and with the consent of the Collateral Manager (on behalf of the Issuer) (such consent not to be unreasonably withheld), a Hedge Counterparty may assign its obligations under a Hedge Agreement to any institution which satisfies the Applicable Rating Agency Condition*; provided* that the Hedge Counterparty may assign its obligations to an affiliate in accordance with the Hedge Agreement without satisfaction of the Applicable Rating Agency Condition or consent of the Collateral Manager or Issuer, *provided* that such affiliate (or its guarantor) has the ratings required in accordance with the terms of the Hedge Agreement and *provided further* that the initial Hedge Counterparty consents to such assignment if the initial Hedge Counterparty is still a Hedge Counterparty at such time (which consent shall not be unreasonably withheld).

Affiliates of the Initial Purchaser or the Collateral Manager may act as Hedge Counterparties from time to time, which may create certain conflicts of interest. See "Risk Factors—Other Considerations—Certain Conflicts of Interest."

Each Hedge Agreement will provide that the Issuer's obligations thereunder will be limited recourse obligations of the Issuer payable solely from the Collateral and subordinated as set forth in the Priority of Payments, and will contain a standard non-petition clause for the benefit of the Issuer. Each Hedge Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

The Hedge Counterparty ratings requirements and the required consents and actions described herein are subject to modification prior to the Closing Date, and may be revised thereafter upon satisfaction of the Applicable Rating Agency Condition.

Interest Rate Swap Agreements. As of the Closing Date, the Issuer will enter into Interest Rate Swap Agreements with AIG FP as initial Interest Rate Swap Counterparty that will provide for the Issuer to pay the initial Interest Rate Swap Counterparty an amount equal to 6.076% per annum with such accrual starting on October 7, 2004 up to September 7, 2006 and 5.926% thereafter in exchange for payments equal to LIBOR on an initial notional amount of $450,000,000. The Issuer will receive an aggregate initial payment on the Closing Date of approximately $35,000,000 from the initial Interest Rate Swap Counterparty under the initial Interest Rate Swap Agreements. After the Closing Date, the Issuer may enter into additional Interest Rate Swap Agreements with AIG FP or other counterparties (each, an "Interest Rate Swap Counterparty") which may consist of interest rate swaps and/or interest rate caps.

The Issuer is authorized (i) to enter into additional Interest Rate Swap Agreements in connection with Deemed Floating Collateral Assets or Deemed Fixed Collateral Assets and (ii) to enter into, or terminate, Interest Rate Swap Agreements in whole or in part from time to time in order to manage interest rate and other risks in connection with the Issuer's issuance of, and making of payments on, the Notes and ownership and disposition of the Collateral Assets and with such Interest Rate Swap Counterparties as it may elect in its sole discretion, in each case subject to the satisfaction of the Applicable Rating Agency Condition*; provided*, that the Issuer will not have to satisfy any Applicable Rating Agency Condition for entering into Interest Rate Swap Agreements in connection with Deemed Floating Asset Hedges or Deemed Fixed Asset Hedges which are Form-Approved Hedge Agreements.

Pursuant to any Interest Rate Swap Agreements that are interest rate swap agreements (including Deemed Floating Asset Hedges), the Issuer will generally agree to pay to the Interest Rate Swap Counterparty an amount equal to interest on the notional amount at a fixed interest rate specified therein and the Interest Rate Swap Counterparty will agree to pay the Issuer an amount equal to interest on the notional amount at LIBOR. The Issuer may also enter into offsetting Interest Rate Swap Agreements, subject to satisfaction of the Applicable Rating Agency Condition, pursuant to which the Interest Rate Swap Counterparty will agree to pay to the Issuer an amount equal to interest on the notional amount at a fixed interest rate specified therein and the Issuer will agree to pay the Interest Rate Swap Counterparty an amount equal to interest on the notional amount at LIBOR. Only a single net payment will be made under an Interest Rate Swap Agreement with respect to each Payment Date. If the floating rate payment to be made by a party (the "Floating Rate Payor") is greater than the fixed rate payment to be made by the other party (the "Fixed Rate Payor"), then the Floating Rate Payor will pay the difference to the Fixed Rate Payor, whereas if the floating rate payment to be made by the Floating Rate Payor is less than the fixed rate payment to be made by the Fixed Rate Payor, then the Fixed Rate Payor will pay the difference to the Floating Rate Payor.

Pursuant to any Interest Rate Swap Agreements that are interest rate cap agreements, the Interest Rate Swap Counterparty will agree to pay to the Issuer with respect to each interest rate cap payment date an amount equal to the excess, if any, of LIBOR over a fixed strike rate on a notional amount. The Issuer will make a single fixed payment to the Interest Rate Swap Counterparty at the beginning of such transaction or a series of fixed payments to the Interest Rate Swap Counterparty on two or more Payment Dates.

The Issuer has agreed to enter into Interest Rate Swap Agreements in notional amounts based on amortization schedules derived from the anticipated amortization of those Collateral Assets that are Fixed Rate Assets that the Issuer expects to own as of the Closing Date. The amortization schedules will be designed such that on the Closing Date and thereafter on each Measurement Date, the aggregate notional amount under such Interest Rate Swap Agreements will be slightly less than (i) the outstanding scheduled principal amount of the Notes scheduled to be outstanding on such date less (ii) the outstanding principal amount of Collateral Assets that pay interest pursuant to a floating rate on such date. However, there can be no assurance that the actual amortization of the Collateral Assets will correspond to the anticipated amortization on which the Interest Rate Swap Agreements will be based.

The Issuer may enter into Interest Rate Swap Agreements with payments made or received based on Deemed Fixed Assets and Deemed Floating Assets. Payments on such Interest Rate Swap Agreements may be made or received on payment dates associated with the underlying assets of such Interest Rate Swap Agreements rather than on Payment Dates. In addition, such Interest Rate Swap Agreements may be terminated on a date other than a Payment Date with the consent of AIG FP (such consent only to be required under the conditions set forth in the applicable Interest Rate Swap Agreement) and if AIG FP remains the Interest Rate Swap Counterparty), such consent not to be unreasonably withheld.

Cashflow Swap Agreements. As of the Closing Date, the Issuer will enter into a Cashflow Swap Agreement with AIG Financial Products Corp. and may from time to time enter into additional Cashflow Swap Agreements with AIG Financial Products Corp. or other counterparties (each, a "Cashflow Swap

Counterparty") with the prior consent of AIG Financial Products Corp. (such consent not to be unreasonably withheld), in part to manage mismatches between the timing of payment receipts on the Collateral Assets and Eligible Investments and the timing of payments due on Payment Dates in accordance with the Priority of Payments. To manage such mismatches, the Issuer will receive a payment from a Cashflow Swap Counterparty on dates relating to each Payment Date in exchange for the Issuer's obligations to make payments to the Cashflow Swap Counterparty, relating to interest payments on Collateral Assets which pay less frequently than monthly, out of Proceeds to the extent available in accordance with the Priority of Payments. The Cashflow Swap Agreement will be reduced automatically for any Collateral Assets which prepay or default or which are sold and will be increased for any non-monthly pay Collateral Assets which are purchased.

In addition to the foregoing, under the initial Cashflow Swap Agreement, AIG Financial Products Corp. will also pay to the Issuer on or about the fifteenth day prior to each Payment Date (and on certain dates prior to the initial Payment Date) and each Payment Date for deposit in the CP Interest Reserve Account an amount (the "Interim Cashflow Swap Payment") such that, the amount on deposit in the CP Interest Reserve Account (taking into consideration amounts already on deposit therein) equals the CP Interest Reserve Required Amount, which will then enable the Issuers to pay from such account the discount on the CP Notes being issued on or prior to the next such period (the "CP Interest Reserve Facility"). The Interim Cashflow Swap Payment is subject to a maximum cap on any Payment Date of $20,000,000 outstanding as described in the Cashflow Swap Agreement. If AIG Financial Products Corp. fails to pay such amount, funds otherwise available to make payments to AIG Financial Products Corp. will instead be used to pay amounts to the CP Interest Reserve Account as required. To the extent funds are available for such purpose and after the payment of certain amounts, the Issuer will pay to AIG Financial Products Corp. on each Payment Date the equivalent amount of unreimbursed Interim Cashflow Swap Payments as of such Payment Date.

Currency Swap Agreements. The Issuer may enter into one or more Currency Swap Agreements with counterparties (each, a "Currency Swap Counterparty"), subject to satisfaction of the Applicable Rating Agency Condition. The Issuer is authorized to enter into additional Currency Swap Agreements in connection with Non-U.S. Dollar Denominated Assets and to terminate Currency Swap Agreements in whole or in part from time to time in order to manage its currency risks. The Issuer may enter into agreements with such Currency Swap Counterparties as it may elect in its sole discretion, in each case subject to the satisfaction of the Applicable Rating Agency Condition*; provided*, that the Issuer will not have to satisfy the Applicable Rating Agency Condition when entering into Currency Swap Agreements which are Form-Approved Currency Swap Agreements.

The Currency Swap Agreements will require the Issuer to pay amounts in British Sterling, Canadian Dollars, Japanese Yen or the Euro accrued on a notional amount in the same currency and will generally require the Currency Swap Counterparty to pay U.S. Dollars based on a U.S. Dollar notional amount and may also require the Issuer to exchange amounts in British Sterling, Canadian Dollars, Japanese Yen or the Euro for pre-agreed amounts of U.S. Dollars. The notional amounts and exchange amounts will be based on amortization schedules derived from the anticipated interest and principal distributions on Non-U.S. Dollar Denominated Assets that the Issuer owns when the Currency Swap Agreement is entered into. However, there can be no assurance that the actual amortization of the Non-U.S. Dollar Denominated Assets will correspond to the anticipated amortization on which the Currency Swap Agreements will be based. If the Issuer does not receive sufficient funds in British Sterling, Canadian Dollars, Japanese Yen or the Euro from the Non-U.S. Dollar Denominated Assets to make required payments under the Currency Swap Agreements, the Trustee must convert other Proceeds into those currencies at the then-current spot exchange rate to make such payments. Proceeds from Non-U.S. Dollar Denominated Assets in excess of the amounts needed to make required payments under the Currency Swap Agreements will be converted into U.S. Dollars at the then-current spot exchange rate and deposited into the Collection Account.

The Issuer has agreed to enter into Currency Swap Agreements in notional amounts based on amortization schedules derived from the anticipated amortization of those Collateral Assets that are Non-U.S. Dollar Denominated Assets that the Issuer expects to own as of the Closing Date. The amortization schedules will be designed such that on the Closing Date and thereafter on each Measurement Date, the aggregate notional amount under such Currency Swap Agreements will be slightly less than (i) the outstanding scheduled principal amount of the Notes scheduled to be outstanding on such date less (ii) the outstanding principal amount of Collateral Assets that pay interest pursuant to a floating rate on such date. However, there can be no assurance that the actual amortization of the Non-U.S. Dollar Denominated Assets will correspond to the anticipated amortization on which the Currency Swap Agreements will be based.

Put Agreement

The Issuer and the Put Counterparty will enter into a 1992 ISDA Master Agreement and a schedule and confirmation thereto, each dated as of July 29, 2004, as amended from time to time (together, the "Put Agreement"). On the Closing Date, the Put Counterparty will be entitled to a fixed structuring fee. Under the Put Agreement, on, or on any of the three Business Days after, the initial scheduled maturity date of any CP Notes, the Put Counterparty is obligated, under the circumstances and subject to satisfaction of the conditions described in the Put Agreement and below, to purchase newly issued Class A-1LT-b Notes (the "Put Option"). In the event the Put Agreement terminates, three Business Days after the date of such termination, the Put Counterparty will be obligated to purchase Class A-1LT-b Notes issued pursuant to the terms of the Indenture at par. The purchase of such new Class A-1LT-b Notes (together with amounts on deposit in the CP Principal Reserve Account), will provide the Issuer with sufficient funds on such maturity date to enable the Issuers to repay maturing CP Notes in accordance with the Put Agreement.

The Put Agreement is scheduled to terminate on the Stated Maturity of the Notes. At any time after August 7, 2005, the Put Counterparty may at its option terminate the Put Agreement in whole or in part. If the Put Counterparty elects to terminate the Put Agreement, the outstanding CP Notes in an amount equal to the amount of the Put Agreement so terminated will be retired at their next maturity date and the Put Counterparty will be required to purchase Class A-1LT-b-2 Notes in an equivalent amount. Class A-1LT-b-2 Notes issued to the Put Counterparty upon the exercise of its right to terminate the Put Agreement will bear interest at the Class A-1LT-b-2 Note Interest Rate for each Interest Accrual Period from and after their issuance date and will mature on the Stated Maturity of the Notes. In all other cases where the Put Option is exercised, the Put Counterparty will be required to purchase Class A-1LT-b-1 Notes which will bear interest at the Class A-1LT-b-1 Note Interest Rate for each Interest Accrual Period from and after their issuance date. The Put Agreement is also subject to termination in accordance with the typical ISDA termination provisions as described therein. Other than amounts due and owing under the Put Agreement at the time of termination, no termination payments will be due to or from the Issuer and the Put Counterparty in connection with any termination of the Put Agreement other than amounts already due and owing thereunder.

The Put Option in respect of the CP Notes will be exercised on the date when: (i) the Issuers are not able to issue, sell or place new CP Notes having a tenor not exceeding nine months and a discount or interest rate less than or equal to the Maximum Put Option Strike Rate in an amount at least equal to the face amount of maturing CP Notes less certain amounts in the CP Interest Reserve Account (including the original amount of any Put Counterparty Deposit Amount but excluding any withdrawals made or to be made from the CP Interest Reserve Account on such date) and any amounts in the CP Principal Reserve Account, (ii) the short-term rating of the Put Counterparty is downgraded below "A-1" or "P-1" by S&P or Moody's, respectively, collateral is not posted in accordance with the Put Agreement, the Put Counterparty is not replaced in accordance with the Put Agreement and Goldman, Sachs & Co., is a CP Note Placement Agent, (iii) a payment default has occurred with respect to the Class A Notes, the CP Notes or the Class B Notes solely as a result of a failure by AIG FP to make a payment under a Hedge Agreement, (iv) the Put Counterparty has notified the Issuer or the Issuer has notified the Put Counterparty that it elects to terminate the Put Agreement as a consequence of the occurrence of an

event of default or termination event thereunder, (v) the Put Agreement is scheduled to terminate as the result of the occurrence of an Event of Default under the Indenture and acceleration under the Indenture and the commencement of the liquidation of Collateral thereunder, (vi) the Put Agreement is scheduled to terminate as the result of an early redemption in full of the Notes and defeasance of the CP Notes in full under the Indenture (with such Put Option termination not in any case becoming effective prior to the earlier of the date on which no CP Notes remain outstanding and the date on which all outstanding CP Notes have been defeased in full under the Indenture), (vii) on or after August 7, 2005 the Put Counterparty elects to terminate the Put Agreement in whole or in part or (viii) a prospective purchaser of CP Notes to be placed on any date fails in its obligations to pay the cash purchase price for such CP Notes it was obligated to purchase on such date. Each of the following conditions must be satisfied to exercise the Put Option: (1) no bankruptcy or insolvency default under the Indenture has occurred with respect to either Co-Issuer, (2) the amounts due to be paid to the Put Counterparty by the Issuer under the Put Agreement have been paid and (3) there are no payment defaults on the Class A Notes, the CP Notes and the Class B Notes (unless such payment default is due solely to a failure by to make payments required to be made under any of the Hedge Agreements). Notwithstanding the foregoing, the Put Option will not be exercised if, upon the occurrence of either condition described in clause (i) or (viii) above, the Issuer is able to issue CP Notes having a discount rate that is less than or equal to the discount equivalent of the Maximum Put Option Strike Rate on or before the date of settlement of such Put Option. The Put Counterparty will be permitted to make deposits to the CP Interest Reserve Account in an amount sufficient to prevent the Put Option from being exercised under certain conditions. If the Put Counterparty does make such a deposit, discount on the issued CP may in certain cases, exceed the Maximum Put Option Strike Rate. The Put Counterparty is not entitled to be reimbursed for any such deposits.

Securities Lending

Provided that no Event of Default has occurred and is continuing, the Collateral Manager may from time to time instruct the Trustee on behalf of the Issuer to lend Collateral Assets to banks, broker-dealers and other financial institutions (excluding insurance companies)(each, a "Securities Lending Counterparty"). Any such loan must have a term of 90 days or less, and any Securities Lending Counterparty must at the time of the loan (i) have a short term senior unsecured debt rating or a guarantor with such rating of at least "P-1" by Moody's or a long term senior unsecured rating or a guarantor with such rating at the time of the loan of at least "A1" from Moody's and (ii) have a short term senior unsecured debt rating or a guarantor with such rating of at least "A-1+" from S&P*; provided* that in each case the Moody's and S&P ratings shall be Actual Ratings.

Such Securities Lending Counterparties may be either Initial Purchaser, affiliates of either Initial Purchaser and/or certain affiliates of the Collateral Manager, subject to the limitations set forth in the Collateral Management Agreement, pursuant to one or more agreements (each, a "Securities Lending Agreement"), which arrangements may create certain conflicts of interest. See "Risk Factors—Other Considerations—Certain Conflicts of Interest." The term of any Securities Lending Agreement shall not exceed 90 days and also shall not exceed the Stated Maturity of the Class A Notes. No more than 10% of the Aggregate Principal Amount may be loaned pursuant to Securities Lending Agreements regardless of term. Each Securities Lending Agreement shall be on market terms (except as may be required below) and shall (i) require that the Securities Lending Counterparty return to the Issuer debt obligations which are identical (in terms of issue and class) to the loaned Collateral Assets; (ii) require that the Securities Lending Counterparty pay to the Issuer such amounts as are equivalent to all interest and other payments which the owner of the loaned Collateral Asset is entitled to for the period during which the Collateral Asset is loaned; (iii) require that each of the Rating Agencies shall have confirmed that the given Securities Lending Agreement will satisfy the Rating Agency Condition; (iv) satisfy any other requirements of Section 1058 of the Code and the Treasury regulations promulgated thereunder; (v) be governed by the laws of New York; and (vi) permit the Issuer to assign its rights thereunder to the Trustee pursuant to the Indenture. A Securities Lending Counterparty is required to post with the Trustee collateral consisting of cash or direct registered debt obligations issued or guaranteed by the United States of America that have a maturity of five years or less (the "Securities Lending Collateral") to secure its obligation to return

the Collateral Assets. Securities Lending Collateral pledged pursuant to a Securities Lending Agreement shall be deposited into the Securities Lending Account added thereon pursuant to the related Securities Lending Agreement. Such collateral will be maintained at all times with the Trustee in an amount equal to at least 102% of the current market value (determined daily by the related Securities Lending Counterparty and monitored by the Collateral Manager) of the loaned securities. If cash collateral is received by the Trustee, it will be invested in Eligible Investments and the Issuer will be entitled to a portion of the interest on such Eligible Investments and a portion of such interest will be paid to the Securities Lending Counterparty. Alternatively, if securities are delivered to the Trustee as security for the obligations of the Securities Lending Counterparty under the related Securities Lending Agreement, the Collateral Manager on behalf of the Issuer will negotiate with the Securities Lending Counterparty a rate for the loan fee to be paid to the Issuer for lending the loaned Collateral Assets. Such collateral will not constitute Collateral Assets and will not be available to support payments or distributions on the Notes unless the related Securities Lending Counterparty defaults in its obligation to return the loaned Collateral Assets to the Issuer. Upon any default by any Securities Lending Counterparty under the related Securities Lending Agreement, the Collateral Manager on behalf of the Issuer shall promptly exercise its remedies under such Securities Lending Agreement, including liquidating the related Securities Lending Collateral. Proceeds of any such liquidations net of amounts returned to the Securities Lending Counterparty shall be treated as Principal Proceeds and shall be deposited to the Collection Account.

If any of the Rating Agencies downgrades a Securities Lending Counterparty such that the Securities Lending Agreement or agreements to which the Securities Lending Counterparty is a party are no longer in compliance with the requirements relating to the credit ratings of the Securities Lending Counterparty, then the Issuer, within ten days thereof, will (i) terminate its Securities Lending Agreement or Agreements with such Securities Lending Counterparty; (ii) obtain a guarantor for the Securities Lending Counterparty's obligations under the given Securities Lending Agreement or Agreements; (iii) reduce the percentage of the Aggregate Principal Amount loaned to such downgraded Securities Lending Counterparty so that the Securities Lending Agreement or Agreements to which such Securities Lending Counterparty is a party, together with all other Securities Lending Agreements, are in compliance with the requirements relating to the credit ratings of Securities Lending Counterparties; or (iv) take such other steps as each Rating Agency that has downgraded such Securities Lending Counterparty may require to cause such Securities Lending Counterparty's obligations under the Securities Lending Agreement or Agreements to which such Securities Lending Counterparty is a party to be treated by such Rating Agency as if such obligations were owed by a counterparty having a rating at least equivalent to the rating that was assigned by such Rating Agency to such downgraded Securities Lending Counterparty immediately prior to its being downgraded.

YIELD CONSIDERATIONS

The Stated Maturity of the Notes is the Payment Date in September 2039. However, the principal of each Class of the Notes is expected to be paid in full prior to their Stated Maturity.

The table set forth below entitled "Class A, B, C and D Constant Default Rate Stress Tests" is based on the following assumptions (the "Collateral Assets Assumptions"):

(i) Forward 1-month LIBOR curve as of July 15, 2004 is assumed;

(ii) the Closing Date is September 1, 2004 and the first Payment Date is October 1, 2004;

(iii) the Coverage Tests are satisfied as of the Closing Date;

(iv) each Collateral Asset will pay principal and interest in accordance with its terms and scheduled payments will be timely received, unless otherwise specified;

(v) all interest payments on the Collateral Assets in the initial portfolio are assumed to be made on a monthly basis;

(vi) payments on Collateral Assets are made on the last day of the month in which such payment is due;

(vii) payments on the Notes are made on the 1st day of the month in which each applicable Payment Date falls (each of which is assumed to be a Business Day) commencing in October, 2004;

(viii) defaults are incurred at the constant annual default rates and are applied on each Payment Date to the outstanding Principal Balance of the Collateral Assets as of such Payment Date commencing on the Payment Date in October, 2005;

(ix) all Proceeds are fully reinvested or paid out pursuant to the Priority of Payments;

(x) expenses are paid on each Payment Date and will be fixed at 0.02% per annum of the outstanding collateral balance;

(xi) there are no trading gains or call premiums;

(xii) each Hedge Counterparty makes all required payments to the Issuer on a timely basis;

(xiii) the Class A Adjusted Overcollateralization Ratio and the Class B Adjusted Overcollateralization Ratio are modeled using the Net Outstanding Portfolio Collateral Balance rather than the Adjusted Net Outstanding Portfolio Collateral Balance;

(xiv) Collateral Assets purchased during the Reinvestment Period are priced at par; and principal payments from Fixed Rate Assets are reinvested at a coupon of 6.15% per annum with a bullet maturity of 5 years from the date of reinvestment and principal payments from Floating Rate Assets are reinvested at a spread equal to 0.9% over one-month LIBOR with a bullet maturity of 5 years from the date of reinvestment;

(xv) there are no taxes owed by the Issuers;

(xvi) no additional issuance of Notes, CP Notes (with the exception of reissuance) or Class A-LT-b Notes, as applicable, or Class E Shares occurs;

(xvii) with respect to the table below entitled "Class A, B, C and D Note Constant Default Rate Stress Tests," no redemption due to an Auction is assumed, unless the remaining principal balance of Collateral Assets is greater than the outstanding par amount of the Notes;

(xviii) all of the Notes are purchased at par; and

(xix) all collateral payments are reinvested at a rate equal to 1-month LIBOR *minus* 1% for 10 days prior to each applicable Payment Date.

The table set forth below entitled "Class A, B, C and D Note Constant Default Rate Stress Tests" shows the Constant Default Rate ("CDR") and Cumulative Defaults for each Class of Notes under three stress scenarios, assuming a 50% severity in terms of principal recoveries on defaulted Collateral Assets. In column one ("First Dollar of Loss"), CDR represents the CDR starting twelve months from the Closing Date that would result in the first dollar reduction in yield to the respective Class of Notes. Cumulative Defaults represent the sum of such defaults. In column two ("LIBOR Flat"), CDR represents the CDR starting twelve months from the Closing Date that would result in a yield equivalent to LIBOR Flat for the

Class A Notes, Class B Notes, Class C Notes and Class D Notes. Cumulative Defaults represent the sum of such defaults. In column three ("Return of Investment (0% return)"), the CDR represents the CDR starting twelve months from the Closing Date that would result in a 0.0% return for the Class A Notes, Class B Notes, Class C Notes and Class D Notes. Cumulative Defaults represent the sum of such defaults.

Class A, B, C and D Note Constant Default Rate Stress Tests

	First Dollar of Loss		LIBOR Flat		Return of Investment (0% return)	
Constant Annual Default Rate at 50% Severity	CDR	Cumulative Defaults	CDR	Cumulative Defaults	CDR	Cumulative Defaults
Class A-1LT	4.7%	9%	5.6%	10%	16.3%	24%
Class A-2	3.1%	6%	3.3%	6%	4.3%	8%
Class B	2.3%	5%	2.4%	5%	3.0%	6%
Class C	0.9%	3%	1.3%	3%	1.8%	4%
Class D	0.7%	2%	0.8%	2%	1.0%	3%

The yield to maturity of the Notes of each Class will also be affected by the rate of repayment of the Collateral Assets, as well as by the redemption of the Notes in an Optional Redemption, Tax Redemption or Auction (and by their respective Optional Redemption Prices, Tax Redemption Prices or Auction Redemption Prices, as applicable, which are then payable). The Issuer is not required to repay the Notes on any date prior to their Stated Maturity. The receipt of principal payments on the Notes at a rate slower than the rate anticipated by investors purchasing the Notes at a discount will result in an actual yield that is lower than anticipated by such investors.

The yield to maturity of the Notes may also be affected by the rate of delinquencies and defaults on and liquidations of the Collateral Assets, to the extent not absorbed by the Class E Shares; sales of Collateral Assets; and/or purchases of Collateral Assets having different scheduled payments and payment characteristics and the operation of the variables in the Priority of Payments. The yield to investors in the Notes will also be adversely affected to the extent that the Issuers incur expenses in excess of the amount payable in accordance with the Priority of Payments that are not absorbed by the Class E Shares.

THE COLLATERAL MANAGER

The information appearing in this section has been prepared by the Collateral Manager and has not been independently verified by the Initial Purchaser or either of the Issuers. Neither the Initial Purchaser nor the Issuers assume any responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral Assets will be performed by the Collateral Manager under the Collateral Management Agreement to be entered into between the Issuer and Western Asset Management Company, a California corporation ("Western").

Western will act as Collateral Manager. The offices of Western Asset Management Company are located at 117 East Colorado Boulevard, Pasadena, California 91105.

Western Asset refers to the combined entity of Western Asset Management Company and Western Asset Management Company Limited, both fixed income investment managers and wholly owned subsidiaries of Legg Mason, Inc. Western Asset Management Company was founded in October

1971 by First Interstate Investment Services, and became an SEC-registered investment advisor in November of that same year. In February 1986, Western Asset Management Company was acquired by Legg Mason, Inc. ("Legg Mason"), a New York Stock Exchange-listed, diversified financial services company based in Baltimore, Maryland. In February 1996, Lehman Brothers Global Asset Management, Ltd. was acquired by Legg Mason, Inc. on behalf of Western Asset Management Company and was renamed Western Asset Management Company Limited.

An affiliate of Legg Mason, Western Asset operates with a substantial amount of autonomy. As of March 31, 2004, Western Asset managed over $160.5 billion in total assets, including $11.09 billion of asset-backed securities, $49.93 of mortgage-backed securities, and $41.67 of investment grade corporate debt. Western Asset had 378 clients as of March 31, 2004, including corporations and their pension plans, municipal organizations, healthcare providers, insurance companies, educational institutions and charitable foundations.

Both Western Asset Management Company and Western Asset Management Company Limited are regulated by the SEC. Western Asset Management Company Limited is also regulated by FSA in the UK.

Western is registered as an investment adviser with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940 (the "Advisers Act"). A copy of Western's Form ADV Part II may be inspected at and obtained from the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Additional information about the Collateral Manager is available upon written request to the Collateral Manager.

Key Personnel

Set forth below are the descriptions of professional experiences of certain officers and employees of the Collateral Manager. Such persons, although employed full time by Western Asset, are not likely to be engaged full time in the management of the Portfolio. Such persons may not necessarily continue to be so employed during the entire term of the Management Agreement or may not continue to perform services for the Collateral Manager under the Management Agreement.

Travis M. Carr

Travis Carr is a Product Development Executive in the Product Development Group at Western Asset. He has over ten years of investment experience. His previous work experience includes Pacific Investment Management Company (PIMCO) where he worked in the Structured Products Group on High Yield CBOs. He was also a trading assistant on PIMCO's Global Desk for both bond and currency transactions. Travis earned his Bachelor of Arts Degree from the University of California, Los Angeles. He has successfully passed all three levels of the Chartered Financial Analyst Program.

James J. Flick

Jim Flick joined Western Asset in 1998 as the Short Duration Product Specialist. His role changed in January 2000 to Portfolio Manager in the ABS/MBS Specialist Group. Jim joined Western Asset from Transamerica Investment Services where he spent 3 years as the Portfolio Manager responsible for a $6 billion Mortgage and Asset-Backed Securities portfolio. Prior to his time in Portfolio Management, Jim spent 8 years as a Fixed Income Salesman specializing in MBS/ABS. His Wall Street experience includes Goldman Sachs and Lehman Brothers. A native of Ohio, Jim received his Bachelor of Science in Mechanical Engineering from the Ohio State University. He later completed his MBA from the Graduate School of Business at the University of Chicago.

Stephen P. Fulton

Steve Fulton is a Product Specialist in structured product/ABS and MBS with over 21 years of fixed income and structured product experience. Steve joined Western Asset in 2000. Prior to joining Western Asset, Steve held positions in Fixed Income Sales at Greenwich Capital, Lehman Brothers, JP Morgan and Goldman Sachs. Steve has a BA from the University of California, Los Angeles, and an MBA from The Amos Tuck School at Dartmouth College.

Jeffrey T. Katz

Jeff Katz is a Research Analyst/Portfolio Manager of Western Asset with over nine years of investment experience. He joined Western Asset in 1998. Mr. Katz is responsible for ABS/MBS credit research of current and prospective portfolio positions. Prior to joining Western Asset, Mr. Katz performed similar functions with Pacific Investment Management Company and Republic National Bank of New York. Mr. Katz holds a BS in Finance from the University of Florida and an MBA from the University of California, Los Angeles.

Ronald D. Mass, CFA

Ron Mass is a senior portfolio manager and has been with Western Asset since 1991. He is head of the Structured Products Group with direct responsibility for all Mortgage and Asset Backed Securities representing approximately $49.3 billion in market value as of March 31, 2004. Mr. Mass serves on the Risk Management Committee at Western Asset and serves as the portfolio management liaison to the Investment Technology Department. Mr. Mass is also responsible for certain leveraged product assignments which include CDOs and the Western Asset Premier Bond Fund. Prior to joining Western Asset, Mr. Mass was a research associate in the fixed income market research department at First Boston Corporation where he was responsible for covering new products in the Asset Backed and Mortgage Securities markets. While at First Boston, Mr. Mass developed the first credit card default model for use in analyzing credit risk within the credit card market. Mr. Mass holds a Bachelor of Arts Degree from the University of California, Los Angeles where he graduated with Phi Beta Kappa honors. He is a Chartered Financial Analyst.

James V. Nelson

Jim Nelson joined Western Asset in 1991 as Co-Director of Research. He is responsible for all corporate credit research conducted at the firm. Jim has 24 years of research experience. He began his career at Standard & Poor's as a ratings officer, then moved to First Boston and Kidder Peabody, where he was named to the Institutional Investor All-American Research Team®. While at those firms, he participated in the issuance area and helped bring some of the largest corporate deals to market. Jim has a Juris Doctorate from New England School of Law and an MBA from Columbia University. He is originally from Utica, New York.

Timothy J. O'Grady

Tim O'Grady is the head of Product Development for Western Asset. He joined Western Asset in 1999 from Evaluation Associates where he was Director of Fixed Income Investments. Prior to joining Evaluation Associates, Mr. O'Grady worked on the development of separate account pension products for MONY PEN, the pension subsidiary of Mutual of New York. Mr. O'Grady was also responsible for the development of the U.S. Government Bond department for Roosevelt and Cross – a New York based municipal bond specialty firm. As treasurer of Colonial Bank, Mr. O'Grady was responsible for the development of a U.S. Treasury and municipal bond dealership and trading account. Mr. O'Grady began his career as a financial analyst for the Winchester Western Division of Olin, receiving masters degrees from the University of Rhode Island and the University of New Haven. His undergraduate degree is from Southern Connecticut State College.

Deborah R. Slogoff

Debbie Slogoff is a Research Analyst/Portfolio Manager of Western Asset with over ten years of investment experience. She joined Western Asset in 2002. Ms. Slogoff is responsible for ABS/CMBS credit research of current and prospective portfolio positions. Prior to joining Western Asset, Ms. Slogoff managed the CMBS surveillance group at Duff & Phelps, and had been an associate at Goldman Sachs in the credit derivatives group. Ms. Slogoff holds a BA in Political Science from the University of Michigan and an MBA from the University of California, Los Angeles.

Jason A. Smith

Jason Smith is a Research Analyst responsible for CDO and structured credit derivative research. He also follows exotic structures and assets. Prior to joining Western Asset in 2003, Mr. Smith worked in the financial analytics and structured transactions group at Bear, Stearns & Co. for four years. There, he both structured and modeled transactions. Mr. Smith holds a BS in Finance and a BS in Economics from New York University's Stern School of Business.

Jeffrey D. Van Schaick, CFA

Jeff Van Schaick is Co-Director of the Research Group with Mr. Nelson and is in charge of all corporate credit research at the firm. His focus is the Utilities and Finance Sectors. He has been with Western Asset his entire 22-year career. Mr. Van Schaick earned his Bachelor of Arts Degree from the Lewis and Clark College. Jeff is a Chartered Financial Analyst.

THE COLLATERAL MANAGEMENT AGREEMENT

General

The Collateral Manager will perform certain investment management functions, including supervising and directing the investment and reinvestment of Collateral, and managing the CP program, and perform certain administrative functions on behalf of the Issuer in accordance with the applicable provisions of the Indenture and the Collateral Management Agreement. The Collateral Manager agrees, and will be authorized, to (i) select the Collateral Assets and Eligible Investments to be acquired by the Issuer, (ii) invest and reinvest the Collateral and facilitate the acquisition and settlement of Collateral Assets by the Issuer, (iii) advise the Issuer on the issuance and sale of the CP Notes, (iv) advise the Issuer with respect to interest rate cash flow timing and currency exchange risk management, (v) advise the Trustee with respect to any disposition or tender of a Collateral Asset or Eligible Investment by the Issuer, (vi) conduct Auctions and (vii) select and negotiate Hedge Agreements, Synthetic Securities, Securities Lending Agreements, Deemed Floating Asset Hedges, and Deemed Fixed Asset Hedges.

Liability of the Collateral Manager

Neither the Collateral Manager nor any of its directors, officers, stockholders, agents, employees or affiliates will be liable to the Issuers, the Trustee, the Initial Purchaser, any Secured Party, the Holders of the Notes, the CP Notes and the Class E Shares, any other persons or any of their respective affiliates, partners, shareholders, officers, directors, employees, agents, accountants and attorneys for any loss incurred as a result of the actions taken or recommended by the Collateral Manager under the Collateral Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misfeasance or gross negligence in the performance, or reckless disregard, of its obligations thereunder. The Collateral Manager will be entitled to indemnification by the Issuer under certain circumstances, but, except in the limited amount described in clause (3) of the Priority of Payments, only after payment in full of the Notes and the CP Notes (or out of funds otherwise payable to holders of the Class E Shares).

The Collateral Manager will be responsible for its own expenses incurred in the course of performing its obligations under the Collateral Management Agreement; *provided, however*, that the Collateral Manager will not be liable, among other things, for the following reasonable expenses and reasonable costs: (i) expenses and costs of legal advisers (including reasonable expenses and costs associated with the use of internal legal counsel of the Collateral Manager), consultants and other professionals retained by the Issuer or by the Collateral Manager, on behalf of the Issuer, in connection with the services provided by the Collateral Manager pursuant to the Collateral Management Agreement and (ii) reasonable travel expenses (airfare, meals, lodging and other transportation) incurred by the Collateral Manager as is reasonably necessary in connection with the default or restructuring of any Collateral Asset. . Such expenses will be paid by the Issuer in accordance with the Priority of Payments.

Resignation of the Collateral Manager; Termination of the Collateral Management Agreement

The Collateral Management Agreement may be terminated at any time by the Collateral Manager, without the payment of any penalty, on 90 days' written notice to the Issuer, the Trustee, and the Rating Agencies or on such shorter notice as is acceptable to the Issuer, the Trustee and the Rating Agencies; *provided* that the Collateral Manager shall have the right to resign immediately upon the effectiveness of any material change in applicable laws or regulations which renders the performance by the Collateral Manager of its duties under the Collateral Management Agreement or the Indenture to be a violation of such laws or regulations. The Collateral Management Agreement will terminate automatically in the event the Notes are redeemed or cancelled in their entirety, or in the event of its assignment by the Collateral Manager in violation of the Collateral Management Agreement.

Termination For Cause

The Collateral Management Agreement may be terminated, and the Collateral Manager may be removed, without payment to the Collateral Manager of any penalty, for Cause upon at least 15 days' prior written notice by the Issuer, the Holders of at least a Majority of the Aggregate Outstanding Amount of the Controlling Class, or the Trustee. For purposes of the Collateral Management Agreement, "Cause" will mean:

(i) the Collateral Manager breaches in any respect any material provision of the Collateral Management Agreement or the Indenture applicable to it and fails to cure such breach within 30 days of becoming aware of, or receiving notice of, the occurrence of such breach;

(ii) the Collateral Manager intentionally breaches or willfully violates any provision of the Collateral Management Agreement or the Indenture applicable to it;

(iii) certain events of bankruptcy, insolvency, conservatorship, or receivership related to the Collateral Manager, or the proposed closing, or winding-up of the business, of the Collateral Manager;

(iv) the occurrence and continuation of an Event of Default under the Indenture which results from (a) any breach by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement or (b) (1) a default for three Business Days or more in the payment of interest due on the Class A Notes and the Class B Notes, or (2) a default in the payment of principal or interest on any Class of the Notes on the Stated Maturity, in either case, excluding a payment default resulting solely from an administrative error or omission by the Trustee, the Paying Agents or the Note Registrar;

(v) a failure by the Issuer to maintain on three consecutive Payment Dates the Class A/B Overcollateralization Ratio at a level not less than 100%;

(vi) the occurrence of an act by the Collateral Manager which constitutes fraud or criminal activity in the performance of the Collateral Manager's obligations under the Collateral Management Agreement or in the performance of investment advisory services in connection with other collateralized debt obligation securities transactions or the indictment of the Collateral Manager or any of its affiliates or any senior officer of the Collateral Manager having direct responsibility over the Issuer's investment activities for a criminal offense materially related to its business of providing investment advisory services; and

(vii) the failure of any representation, warranty, certification or statement made or delivered by the Collateral Manager in or pursuant to the Collateral Management Agreement or the Indenture to be correct in any material respect when made and (a) such failure has (or could be reasonably expected to have) a material adverse effect on either of the Co-Issuers, the Noteholders or the Holders of the Class E Shares and (b) if such failure can be cured, such failure is not cured within 45 days after the Collateral Manager acquires actual knowledge of or receives notice from the Trustee of such violation.

The Collateral Manager shall give written notice to the Issuer, the Trustee, the Rating Agencies and the Holders of all outstanding Notes promptly upon the Collateral Manager's becoming aware of the occurrence of any event that constitutes "Cause".

The Trustee shall terminate the Collateral Management Agreement upon the written direction of the Controlling Class following the occurrence of an Event of Default under the Indenture as specified in clause (iv) above.

Replacement of Collateral Manager

No removal, termination or resignation of the Collateral Manager or termination of the Collateral Management Agreement shall be effective unless (a) a successor Collateral Manager (the "Replacement Manager")) has been appointed by the Issuer and has agreed in writing to assume all of the Collateral Manager's duties and obligations pursuant to the Collateral Management Agreement, (b) the Replacement Manager is not objected to by the Holders of 66 2/3% or more of the Class E Shares (but excluding from such vote any Class E Shares held by the Collateral Manager or its Affiliates) and the Controlling Class within 30 days after notice and (c) the Rating Agency Condition has been satisfied with respect to the appointment of such Replacement Manager; *provided, however*, that, at any time when an Event of Default shall have occurred and be continuing under the Indenture and the Collateral Manager shall have resigned or been removed, the Holders of the Majority of the Controlling Class may appoint a Replacement Manager. In the event that no Replacement Manager has been appointed within 180 days of the resignation or removal of the Collateral Manager, the Issuer or the Collateral Manager may petition a court of competent jurisdiction to appoint a Replacement Manager without the approval of the Holders of the Notes or the Class E Shares.

Amendment of the Collateral Management Agreement

The Collateral Management Agreement may not be supplemented, amended or modified in any manner except by a written agreement executed by all the parties to the Collateral Management Agreement and only if the Rating Agency Condition is satisfied.

For so long as any of the Notes or Class E Shares are listed on any stock exchange, the Issuer will cause a copy of any amendment or modification to the Collateral Management Agreement to be sent to such stock exchange.

Conflicts of Interest

The Collateral Manager shall not be permitted to direct the Trustee (a) to acquire any Collateral Asset for inclusion in the Collateral from (i) the Collateral Manager or any of its Affiliates as principal or (ii) any entity, fund or portfolio for which Western acts as collateral manager or investment adviser or (b) to sell any Collateral Asset included in the Collateral to (i) the Collateral Manager or any of its Affiliates as principal or (ii) any entity, fund or portfolio for which Western acts as collateral manager or investment adviser; *provided* that such restrictions will not apply to the transactions the terms of which are substantially as advantageous to the Issuer as the terms the Issuer would obtain in comparable arms length transactions with third parties and, in the case of an acquisition of the Collateral Asset, the Collateral Manager determines in good faith that such Collateral Asset is an appropriate investment for the Issuer.

Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its affiliates or any funds managed by Western and their respective clients and employees and from the conduct by the Initial Purchaser and its affiliates of other transactions with the Issuer, including, without limitation, acting as counterparty with respect to any Hedge Agreements, Securities Lending Agreements and Synthetic Securities. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Collateral Manager and its affiliates may invest for the account of others in debt obligations that would be appropriate as security for the Notes and the CP Notes, if any, and have no duty in making such investments to act in a way that is favorable to the Issuer or the Holders of the Notes and the CP Notes. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its affiliates may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its affiliates' other accounts. In addition, the Collateral Manager and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Collateral Manager currently serves and may in the future serve as collateral manager of other companies organized to invest in assets similar to Collateral Assets. The Collateral Manager or any of its affiliates may from time to time simultaneously seek to purchase investments for the Issuer and any similar entity for which it serves as collateral manager, or for its clients or affiliates. Some of the Asset-Backed Securities purchased by the Issuer on the Closing Date may be purchased from portfolios of Asset-Backed Securities held by one or more of the Collateral Manager and its Affiliates and clients. The Issuer will purchase Asset-Backed Securities from the Collateral Manager or any such client or Affiliate on the Closing Date only to the extent (i) such purchases are made at fair market value and otherwise on arms' length terms and (ii) the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law.

The Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment adviser may at times own Notes of one or more other Classes, the CP Notes and the Class E Shares. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes and the Class E Shares held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and the Class E Shares held by them and by such accounts with respect to all other matters.

The Collateral Manager, its affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment adviser may at times own Notes of one or more Classes or CP Notes.

The Collateral Manager will cause any acquisition or sale by the Issuer of Collateral to be conducted on an arm's length basis and, if effected with the Collateral Manager or a person affiliated with the Collateral Manager, or any fund or account for which the Collateral Manager or an affiliate thereof acts as Collateral Manager, on terms no less favorable to the Issuer than would be the case if such person were not so affiliated.

Compensation

As compensation for the performance of its obligations under the Collateral Management Agreement, the Collateral Manager will be entitled to receive a fee, payable in arrears on each Payment Date, consisting of a senior management fee of 0.10% per annum (the "Base Collateral Management Fee") times the Aggregate Principal Amount, as adjusted for Defaulted Obligations and Deferred Interest PIK Bonds, and subject to the Priority of Payments, measured as of the beginning of the Due Period preceding such Payment Date; *provided* that the amount of the Base Collateral Management Fee may be increased up to 0.15% (subject to a cap on such revised fee of U.S. $1,500,000 per annum), if the Rating Agency Condition is satisfied, in connection with the appointment of a replacement collateral manager that is not the Collateral Manager or an affiliate. The Collateral Manager may, at its election (the "Fee Election") upon notice to the Issuer and the Trustee, reduce for a predetermined period of time the amount which is due to it as Base Collateral Management Fee by a specific percentage. Any Fee Election must be made on or before the Determination Date for the first Due Period in respect of which the Fee Election will apply and will not be revocable during the period specified in the Fee Election; except that, in the event that the Collateral Manager is removed, resigns or assigns its rights to any person, the Fee Election will initially revert to the payments referred to in the first sentence of this paragraph.

The Collateral Manager will be entitled to receive, in addition to the Base Collateral Management Fee, on each Payment Date (i) a fee subordinate to payments on the Notes and other payments as specified in the Priority of Payments of 0.02% per annum times the Aggregate Principal Amount, as adjusted for Defaulted Obligations and Deferred Interest PIK Bonds, and subject to the Priority of Payments, measured as of the beginning of the Due Period preceding such Payment Date (the "Debt Subordinate Collateral Management Fee") *plus* accrued interest on any unpaid Debt Subordinate Collateral Management Fee at a rate equal to LIBOR *plus* 1.00% per annum, and (ii) a fee subordinated to certain payments on the Class E Shares of 0.02% per annum times the Aggregate Principal Amount, as adjusted for Defaulted Obligations and Deferred Interest PIK Bonds, and subject to the Priority of Payments, measured as of the beginning of the Due Period preceding such Payment Date (the "Class E Shares Subordinate Collateral Management Fee") *plus* the aggregate amount of any Class E Shares Subordinate Collateral Management Fee not paid on any previous Payment Date.

The Base Collateral Management Fee will be calculated on the basis of a 360 day year consisting of twelve 30-day months. All fees payable to the Collateral Manager on a Payment Date are payable only in accordance with the Priority of Payments.

In the event that the Collateral Manager resigns or is terminated and a replacement collateral manager is appointed, the Collateral Manager nonetheless will be entitled to receive payment of all unpaid Collateral Management Fees accrued through the effective date of the termination or resignation, to the extent that funds are available for that purpose in accordance with the Priority of Payments, and such payments will rank *pari passu* with the Collateral Management Fees due to the replacement Collateral Manager.

Initial Portfolio

The Collateral Assets expected to be purchased on the Closing Date have been selected by the Collateral Manager in accordance with the Collateral Management Agreement, the Indenture and the Collateral Manager's customary procedures for selecting investments of a type similar to the Collateral Assets. The Collateral Manager has undertaken its own investigation in selecting the initial Collateral Assets and has reviewed such information as it deemed appropriate and proper. In accordance with the Collateral Management Agreement, the Collateral Manager has further determined that each of the Collateral Assets expected to be purchased on the Closing Date is eligible to be purchased on the Closing Date as described herein under "Security for the Notes—Purchase of Collateral Assets."

THE ISSUERS

General

The Issuer was incorporated on April 5, 2004 under the Companies Law (2003, as amended) of the Cayman Islands with the registered number 134634. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Issuer has no prior operating history. Clause 3 of the memorandum portion of the Issuer's Memorandum and Articles of Association sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes, the CP Notes and the Class E Shares.

The Co-Issuer was incorporated on April 2, 2004, under the laws of the State of Delaware and its registered office is 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer will not have any substantial assets and will not pledge any assets to secure the Notes and the CP Notes.

The Co-Issuer will be capitalized only to the extent of its common equity of $100, will have no assets other than its equity capital. The Share Trustee will own 100% of the stock of the Co-Issuer.

The Notes are obligations only of the Issuers and not of the Trustee, the Collateral Manager, the Initial Purchaser, the Administrator, the Agents, the Share Trustee or any directors, managers or officers of the Issuers or any of their respective affiliates. The Class E Shares are equity interests only in the Issuer.

The authorized share capital of the Issuer consists of 36,000 Class E Shares, par value U.S.$0.01 per share and 250 ordinary shares, $1.00 par value per share (the "Issuer Ordinary Shares"). All of the Issuer Ordinary Shares have been issued and are held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (the "Administrator") as the trustee pursuant to the terms of a charitable trust (the "Share Trustee"). All of the outstanding common equity of the Co-Issuer will be held by the Issuer. For so long as any of the Notes are outstanding, no beneficial interest in the shares of the Issuer or of the common equity of the Co-Issuer shall be registered to a U.S. Person.

Neither the Issuer nor the Co-Issuer has any loan capital (including term loans) outstanding or created but unissued, or any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptance credits, hire purchase agreements, guarantees or other contingent liabilities, as of the date hereof, other than the Indenture, the Notes and the CP Notes.

Capitalization of the Issuer

The initial proposed capitalization of the Issuer as of the Closing Date after giving effect to the issuance of the Notes, the CP Notes, the Class E Shares and the Issuer Ordinary Shares and entry into the initial Hedge Agreement (before deducting expenses of the offering of the Notes) is as set forth below.

	Amount
CP Notes (not offered hereby)	$945,000,000
Class A-1LT-a Notes	$400,000,000
Class A-2 Notes	$57,500,000
Class B Notes	$40,500,000
Class C Notes	$24,000,000
Class D Notes	$15,000,000
Payment to the Issuer under the Initial Hedge Agreement	35,000,000
Total Debt	1,517,000,000
Class E Shares	15,000,000
Issuer Ordinary Shares	250
Total Equity	15,000,250
Total Capitalization	1,532,000,250

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of its common equity of $100, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Notes and the CP Notes. The Co-Issuer has agreed to co-issue the Notes and the CP Notes as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Holders of Notes will not be able to exercise their rights with respect to the Notes against any assets of the Co-Issuer. Holders of Notes must rely on the Collateral held by the Issuer and pledged to the Trustee for payment on their respective Notes, in accordance with the Priority of Payments.

Business

The Issuers will not undertake any business other than the issuance of the Notes and the CP Notes and, in the case of the Issuer, the issuance of the Class E Shares and the Issuer Ordinary Shares, the acquisition and management of the Collateral and, in each case, other related transactions. Neither of the Issuers will have any subsidiaries.

The Administrator will act as the administrator of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement to be dated the Closing Date by and between the Administrator, the Issuer and the Co-Issuer (the "Administration Agreement"), the Administrator will perform various administrative functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by

the Issuer at rates agreed upon from time to time *plus* expenses. The directors of the Issuer listed below are also officers and/or employees of the Administrator and may be contacted at the address of the Administrator.

The activities of the Administrator pursuant to the Administration Agreement will be subject to the overview of the Issuer's Board of Directors. The Administration Agreement may be terminated by either the Issuer or the Administrator upon 3 months' written notice. In addition, either party may terminate the Administration Agreement by giving at least 14 days' notice to the other party at any time within twelve months of the happening of certain events. Upon the occurrence of any such termination, the Issuer will promptly appoint a successor Administrator.

The Administrator's principal office is: P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are Phillipa White, Wendy Ebanks and Michael Beckley. The Directors of the Issuer may be contacted at the Administrator's principal office set forth above.

The special manager of the Co-Issuer is Donald Puglisi who may be contacted at the address of the Co-Issuer.

INCOME TAX CONSIDERATIONS

United States Tax Considerations

The following is a summary of certain of the U.S. federal income tax consequences of an investment in the Securities by purchasers that acquire their Securities in their initial offering and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Securities. The discussion and the opinions referenced below are based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS or a court will not take contrary positions. Further, the following summary does not deal with all U.S. federal income tax consequences applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), banks, insurance companies, tax-exempt organizations, dealers in securities or currencies, electing large partnerships, natural persons, cash method taxpayers, S corporations, estates and trusts, investors that hold the Notes as part of a hedge, straddle, or an integrated or conversion transaction, or investors whose "functional currency" is not the United States dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the investors of equity interests in either a U.S. Holder (defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold the Securities as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code 1986 (the "Code"). **INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.**

As used herein, "U.S. Holder" means a beneficial holder of a Security that is an individual citizen or resident of the United States for U.S. federal income tax purposes, a corporation or partnership or other entity treated as a corporation or partnership for U.S. federal income tax purposes created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust for which a court within the United States is able to exercise primary supervision over its

administration and for which one or more U.S. persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. If a partnership holds the Securities, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding the Securities should consult their own tax advisors. "Non-U.S. Holder" means any holder (or beneficial holder) of a Security that is not a U.S. Holder.

Treatment of the Issuer

Upon the issuance of the Notes, Orrick, Herrington & Sutcliffe LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, although the matter is not free from doubt, the Issuer will not be treated as engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to U.S. federal income taxation on its net income. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a U.S. trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a business, among other consequences, the Issuer would be subject to U.S. federal income taxation on its net income (as well as the branch profits tax). The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes and return of capital in respect of the Class E Shares.

The Issuer intends to acquire Collateral Assets the interest on which, and any gain from the sale or disposition thereof, is expected not to be subject to U.S. federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Collateral Assets and thus there can be no absolute assurance that in every case payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur U.S. federal withholding tax on interest received from a related U.S. person. Under current law, payments received on the Hedge Agreements are not subject to U.S. federal withholding tax.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that would be subject to U.S. federal withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer will be under no obligation to make any additional payments to the holders of any Notes in respect of such withholding or deduction.

Treatment of U.S. Holders of the Notes

Classification of the Notes

The Issuer has agreed and, by its acceptance of a Note, each Holder of a Note will be deemed to have agreed, to treat each of the Notes as debt of the Issuer for U.S. federal income tax purposes. Upon the issuance of the Notes, Orrick, Herrington & Sutcliffe LLP will deliver an opinion generally to the effect that assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, the Notes should be characterized as debt of the Issuer for U.S. federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no assurance that the IRS will not seek to characterize any class of Notes as other than indebtedness. Except as provided below under "—Alternative Characterization of the Notes," the balance of this discussion assumes that the Notes will be characterized as indebtedness of the Issuer for U.S. federal income tax purposes.

For U.S. federal income tax purposes, the Issuer of the Notes, and not the Co-Issuer, will be treated as the issuer of the Notes.

Interest on the Notes

U.S. Holders of Notes will include payments of stated interest received on the Notes in accordance with their method of tax accounting as ordinary interest income.

Original Issue Discount

While not absolutely certain, it appears that the Class C Notes and the Class D Notes will be issued with original issue discount and a U.S. Holder of a Class C Note or a Class D Note will be required to include original issue discount ("OID") in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Note. Thus, the Holder of a Class C Note or a Class D Note will be required to include original issue discount in income as it accrues, prior to the receipt of the cash attributable to such income. U.S. Holders, however, would be entitled to claim a loss upon maturity or other disposition of a Class C Note or a Class D Note with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss.

Although there can be no assurance, the Notes should not be "contingent payment debt instruments" ("CPDIs") within the meaning of Treasury Regulation section 1.1275-4. If any Class of Notes were considered such instruments, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

The Notes may be debt instruments described in section 1272(a)(6) of the Code (debt instruments that may be accelerated by reason of the prepayment of other debt obligations securing such debt instruments). Special tax rules principally relating to the accrual of original issue discount, market discount and bond premium apply to debt instruments described in section 1272(a)(6). Further, those debt instruments may not be part of an integrated transaction with a related hedge under Treasury Regulation § 1.1275-6. Prospective investors should consult with their own tax advisors regarding the effects of section 1272(a)(6).

Sale, Exchange or Other Disposition of the Notes

In general, a U.S. Holder of a Note will have a basis in such Note equal to the cost of such Note to such U.S. Holder, increased by any amount includible in income by such U.S. Holder as OID and reduced by any amortized premium and any payments thereon other than interest on such Note (although with respect to the Class C Notes and the Class D Notes, if such Notes are in fact deemed to be issued with OID, basis will be reduced by all payments (including interest) made on such Notes. Upon a sale, exchange or other disposition of a Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or other disposition (less any accrued and unpaid interest, which would be taxable as such) and the U.S. Holder's tax basis in such Note. Such gain or loss generally will be long term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Alternative Characterization of the Notes

Notwithstanding such tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that the Class C Notes, the Class D Notes and possibly any other class of Notes should be treated as equity interests (or as part debt, part equity) in the Issuer. Such a recharacterization might result in material adverse tax consequences to U.S. Holders. If U.S. Holders of a class of Notes were treated as owning equity interests in the Issuer, the U.S. federal income tax consequences to U.S. Holders of such Notes would be as described under "—Treatment of U.S. Holders of the Class E Shares."

Non-U.S. Holders

Assuming that the Issuer is not engaged in a U.S. trade or business, a Non-U.S. Holder of a Note that has no connection with the United States and is not related, directly or indirectly, with the Issuer or the holders of the Issuer's equity or the Class E Shares, will not be subject to United States withholding tax on interest payments. Non-U.S. Holders will be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

Treatment of U.S. Holders of the Class E Shares

General

Prospective investors of the Class E Shares should not rely on this summary and should consult their own tax advisors regarding alternative characterizations of the Class E Shares and the consequences of their acquiring, holding, and disposing of the Class E Shares, including the possibility that the Class E Shares will be treated as contingent payment debt instruments. For purposes of this Section "Treatment of U.S. Holders of the Class E Shares," a U.S. Holder is defined to be a U.S. Holder of a Class E Share.

Distributions on the Class E Shares

Subject to the anti-deferral rules discussed below, payments on Class E Shares distributed by the Issuer to a U.S. Holder that is subject to U.S. federal income tax will be taxable to such U.S. Holder as a dividend to the extent of the current and accumulated earnings and profits (determined under U.S. federal income tax principles) of the Issuer. Such payments will not be eligible for the dividends received deduction allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the extent of, and will be applied against and reduce, the U.S. Holder's adjusted tax basis in the Class E Shares. Distributions in excess of earnings and profits and basis will be taxable as gain from the sale or exchange of property.

Sale, Exchange or Other Disposition of the Class E Shares

In general, a U.S. Holder of the Class E Shares will recognize gain or loss upon the sale, exchange or other disposition of the Class E Shares equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Class E Shares. Initially, the tax basis of a U.S. Holder should equal the amount paid for the Class E Shares. Such basis will be increased by amounts taxable to such U.S. Holders by virtue of a QEF election (defined below), or by virtue of the CFC or FPHC rules (discussed below), and decreased by actual distributions from the Issuer that are deemed to consist of previously taxed amounts or to represent the return of capital.

Anti-Deferral Rules

Prospective investors should be aware that certain of the procedural rules for PFICs and QEF elections (both as defined below) are complex and should consult their own tax advisors regarding such rules.

The tax consequences discussed above are likely to be materially modified by the anti-deferral rules discussed below. In general, each U.S. Holder's investment in the Issuer will be taxed as an investment in a "passive foreign investment company" ("PFIC"), a controlled foreign corporation ("CFC") or a foreign personal holding company ("FPHC"), depending (in part) upon the percentage of the Issuer's equity that is acquired and held by certain U.S. Holders. If applicable, the rules pertaining to CFCs generally override those pertaining to PFICs and FPHCs and the rules pertaining to FPHCs generally override the rules pertaining to PFICs with respect to which a QEF election has been made (although, in certain circumstances, more than one set of rules may be applicable simultaneously).

Prospective investors should be aware that in determining what percentage of the equity of the Issuer is held by various categories of investors (for example, for purposes of the CFC, FPHC, and information reporting rules described below), the Collateral Manager's interest in certain portions of its fee and certain classes of Notes may be considered equity (and might be considered voting equity).

Status of the Issuer as a PFIC

The Issuer will be treated as a "PFIC" for U.S. federal income tax purposes. U.S. Holders in PFICs, other than U.S. Holders that make the "qualified electing fund" or "QEF" election described below, are subject to special rules for the taxation of "excess distributions" (which include both certain distributions by a PFIC and any gain recognized on a disposition of PFIC stock). In general, Section 1291 of the Code provides that the amount of any "excess distribution" will be allocated to each day of the U.S. Holder's holding period for its PFIC stock. The amount allocated to the current year will be included in the U.S. Holder's gross income for the current year as ordinary income. With respect to amounts allocated to prior years, the tax imposed for the current year will be increased by the "deferred tax amount" (an amount calculated with respect to each prior year by multiplying the amount allocated to such year by the highest rate of tax in effect for such year, together with an interest charge, as though the amounts of tax were overdue).

An excess distribution is the amount by which distributions for a taxable year exceed 125% of the average distribution in respect of the Class E Shares during the three preceding taxable years (or, if shorter, the investor's holding period for the Class E Shares). As indicated above, any gain recognized upon disposition (or deemed disposition) of the Class E Shares will be treated as an excess distribution and taxed as described above (i.e., not be taxable as capital gain). For this purpose, a U.S. Holder that uses a Class E Share as security for an obligation may be treated as having disposed of the Class E Share.

Special rules apply to certain regulated investment companies that own interests in PFICs and any such investor should consult with its own tax advisors regarding the consequences to it of acquiring Class E Shares.

QEF Election

If a U.S. Holder (including a U.S. Holder indirectly owning Class E Shares) makes the qualified electing fund election (the "QEF election") provided in Section 1295 of the Code, the U.S. Holder will be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income (as ordinary income and long term capital gain, respectively) for each taxable year and pay tax thereon even if such income and gain is not distributed to the U.S. Holder by the Issuer. In addition, any losses of the Issuer will not be deductible by such U.S. Holder. A U.S. Holder that makes the QEF election, may, however (in general) elect to defer the payment of tax on undistributed income (until such income is distributed), *provided* it agrees to pay interest on such deferred tax liability. If the Issuer later distributes the income or gain on which the U.S. Holder has already paid taxes, amounts so distributed to the U.S. Holder will not be further taxable to the U.S. Holder. A U.S. Holder's tax basis in the Class E Shares will be increased by the amount so included and decreased by the amount of nontaxable distributions. In general, a U.S. Holder making the QEF Election will recognize, on the disposition of the Class E Shares capital gain or loss equal to the difference, if any, between the amount realized upon such disposition (including redemption or retirement) and its tax basis in such Class E Shares. In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held a Class E Share.

The QEF election is effective only if certain required information is made available by the Issuer to the IRS. The Issuer will undertake to comply with the IRS information requirements necessary to be a QEF, which will permit U.S. Holders to make the QEF election. Nonetheless, there can be no absolute assurance that such information will always be available or presented.

Where a QEF election is not timely made by a U.S. Holder for the year in which it acquired its Class E Shares, but is made for a later year, the excess distribution rules can be avoided by making an election to recognize gain from a deemed sale of the Class E Shares at the time when the QEF election becomes effective.

A U.S. Holder should consult its own tax advisors regarding whether it should make a QEF election (and, if it failed to make an initial election, whether it should make an election in a subsequent taxable year).

Prospective investors should be aware that the Issuer's income that is allocated to holders (under the QEF rules as well as under the CFC and FPHC rules discussed below) will not necessarily bear any particular relationship in any year to the amount of cash that is distributed on the Class E Shares and in any given year may be substantially greater. Such an excess will arise, among other circumstances, when Collateral Assets are purchased at a discount, or interest or other income on the Collateral Assets (which is included in gross income) is used to acquire other Collateral Assets or to repay principal on the Notes (which does not give rise to a deduction).

Status of the Issuer as a CFC

U.S. tax law also contains special provisions dealing with CFCs. A U.S. Holder (or any other holder of an interest treated as voting equity in the Issuer that would meet the definition of U.S. Holders but for the fact that such holder does not hold Class E Shares) that owns (directly or indirectly) at least 10% of the voting stock of a foreign corporation, the U.S. Holder is considered a "U.S. Shareholder" with respect to the foreign corporation. If U.S. Shareholders in the aggregate own (directly or indirectly) more than 50% of the voting power or value of the stock of such corporation, the foreign corporation will be classified as a CFC. Complex attribution rules apply for purposes of determining ownership of stock in a foreign corporation such as the Issuer. Prospective investors should be aware that, while the matter is uncertain, it is likely that the Class E Shares and it is possible that any Class of Notes that is treated as equity will be treated as voting equity.

If the Issuer is classified as a CFC, a U.S. Shareholder (and possibly any U.S. Holder that is a direct or indirect holder of a grantor trust that is considered to be a U.S. Shareholder) that is a shareholder of the Issuer as of the end of the Issuer's taxable year generally would be subject to current U.S. tax on the income of the Issuer, regardless of cash distributions from the Issuer. Earnings subject to tax generally as income of the U.S. Holder generally will not be taxed again when they are distributed to the U.S. Holder. In addition, income that would otherwise be characterized as capital gain and gain on the sale of the CFC's stock by a U.S. Shareholder (during the period that the corporation is a CFC and thereafter for a five-year period) would be classified in whole or in part as dividend income.

Certain income generated by a corporation conducting a banking, financing, insurance, or other similar business would not be includible in a holder's income under the CFC rules. However, each U.S. Holder of a Class E Share will agree not to take the position that the Issuer is engaged in such a business. Accordingly, if the CFC rules apply, a U.S. Shareholder would generally be subject to tax on its share of all of the Issuer's income.

Status of the Issuer as an FPHC

The Issuer will be classified as an FPHC if at any time during a taxable year more than 50% of the shares of the Class E Shares (or, in the event that any class of Notes or the Collateral Manager's interest in any portion of its fee is recharacterized as equity in the Issuer for U.S. federal income tax purposes, the Class E Shares and such recharacterized Notes or such portion of its fee) by vote or value will be owned (directly or indirectly) by not more than five individuals who are citizens or residents of the United States. Ownership attribution rules are used in applying the 50% ownership test, including a rule that treats an individual as owning stock owned directly or indirectly by the individual's partners, and a rule that treats an individual with an option to acquire stock as owning the related stock. Thus, for

example, if a partnership with one U.S. individual partner purchased more than 50% of the Class E Shares, the U.S. individual would be treated as owning more than 50% of the stock of the Issuer and the corporation would be a FPHC. In the event the Issuer is classified as an FPHC and a non-CFC, U.S. Holders would include in income for the taxable year as a dividend their share of the undistributed foreign personal holding company income of the Issuer. In this event, the tax basis of a U.S. Holder's Class E Shares would be increased by the amount included in income.

Transfer Reporting Requirements

In general, U.S. Holders who acquire any Class E Shares for cash may be required to file a Form 926 with the IRS and to supply certain additional information to the IRS if (i) such U.S. Person owns (directly or indirectly) immediately after the transfer, at least 10% by vote or value of the Issuer or (ii) the transfer when aggregated with all related transfers under applicable regulations, exceeds $100,000. In the event a U.S. Holder that is required to file such form, fails to file such form, the U.S. Holder could be subject to a penalty of up to $100,000 (computed as 10% of the gross amount paid for the Class E Shares). Other important information reporting requirements apply to persons that acquire 10% or more of a foreign corporation's equity.

Information Reporting and Backup Withholding

Information reporting to the IRS generally will be required with respect to payments of principal or interest (including OID) on the Notes and proceeds of the sale of the Notes to holders other than corporations and other exempt recipients. A "backup" withholding tax may apply to those payments if such holder fails to provide certain identifying information (such as the holder's taxpayer identification number) to the Trustee and the Note Paying Agent, as applicable. Non-U.S. Holders may be required to comply with the applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Prospective investors should consult with their tax advisors concerning the procedures whereby they may establish an exemption from backup withholding.

Tax-Exempt Investors

Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their "unrelated business taxable income" ("UBTI"). A Tax-Exempt Investor's income from an investment in the Issuer generally should not be treated as resulting in UBTI under current law, so long as such investor's acquisition of stock in the Issuer is not debt-financed.

Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Issuer.

Taxation of Non-U.S. Holders

Assuming that the Issuer at no time is engaged in a U.S. trade or business, payments on, and gain from the sale, exchange or redemption of, Class E Shares generally should not be subject to U.S. federal income tax in the hands of a non-U.S. Holder that has no connection with the United States other than the holding of the Class E Shares.

Cayman Islands Tax Considerations

The following is a general summary of Cayman Islands taxation in relation to the Securities.

Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of, or distributions on, the Securities will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of the Securities and gains derived from the sale of Securities will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands with respect to such Note. In addition, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor in Council of the Cayman Islands substantially in the following form:

THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with:

Sierra Madre Funding, Ltd. (the "Company")

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the twentieth day of April, 2004.

GOVERNOR IN CABINET

The Cayman Islands does not have an income tax treaty arrangement with the United States or any other country.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN NOTES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and, on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the Code; collectively, "Parties in Interest") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

The U.S. Department of Labor (the "DOL") has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the "Plan Asset Regulation"), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by Benefit Plan Investors (as defined herein) is not "significant."

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if Notes are acquired with the assets of a Plan with respect to which the Issuer, the Initial Purchaser, the Collateral Manager (and the Put Counterparty, if applicable), or any of their respective affiliates, is a Party in Interest. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a security and the circumstances under which such decision is made. There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Notes, or that, if available, the exemption would cover all possible prohibited transactions.

Governmental plans and certain church and other plans, while not necessarily subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any insurance company proposing to invest assets of its general account in the Notes should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider the retroactive and prospective exemptive relief

granted by the U.S. Department of Labor for transactions involving insurance company general accounts in DOL Prohibited Transaction Class Exemption ("PTCE") 95-60, 60 Fed. Reg. 35925 (July 12, 1995) and the regulations issued by the DOL, 29 C.F.R. Section 2550.401c-1 (January 5, 2000). Certain additional information regarding general accounts is set forth below.

Any Plan fiduciary or other person who proposes to use assets of any Plan to purchase any Securities should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of any Security to a Plan, or to a person using assets of any Plan to effect its purchase of any Security, is in no respect a representation by the Issuers, the Initial Purchaser or the Collateral Manager that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Notes

For purposes of the Plan Asset Regulation, an equity interest includes any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Because the Notes (a) are expected to be treated as indebtedness under local law and for federal tax purposes (see "Income Tax Considerations" herein), and (b) should not be deemed to have any "substantial equity features," purchases of the Notes with Plan Assets should not be treated as equity investments and, therefore, the Collateral Assets should not be deemed to be "plan assets" of the investing Plans. Those conclusions are based, in part, upon the traditional debt features of the Notes, including the reasonable expectation of purchasers of the Notes that the Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. However, if the Notes were nevertheless treated as equity interests for purposes of the Plan Asset Regulation and if the assets of the Issuer were deemed to constitute the assets of an investing Plan, (i) transactions involving the assets of the Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an investment in the Notes could be deemed to have delegated its responsibility to manage the assets of the Plan.

By its purchase of any Note, the purchaser thereof will be deemed to have represented and warranted either that (i) it is not and will not be an ERISA Plan, a plan that is subject to Section 4975 of the Code or any entity whose underlying assets include "plan assets" by reason of such plan's investment in the entity, or another employee benefit plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase and holding of a Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such another plan, any substantially similar federal, state or local law) for which an exemption is not available.

Class E Shares

Equity participation in an entity by Benefit Plan Investors is "significant" (see above) if 25% or more of the value of any class of equity interest in the entity (excluding the portion held by Controlling Persons (as provided below)) is held by Benefit Plan Investors. If equity participation in the Issuer by Benefit Plan investors (as defined herein) is "significant" within the meaning of the Plan Asset Regulation, the assets of the Issuer could be deemed to be the assets of Plans investing in the equity. If the assets of the Issuer were deemed to constitute the assets of an investing Plan, (i) transactions involving the assets of the Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and

disclosure requirements, and (iii) the fiduciary causing the Plan to make an investment in the equity interests could be deemed to have delegated its responsibility to manage the assets of the Plan. The term "Benefit Plan Investor" includes (i) an employee benefit plan (as defined in Section 3(3) of ERISA), whether or not it is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Code, whether or not it is subject to Section 4975 of the Code, or (iii) any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity. For purposes of making the 25% determination, the value of any equity interests held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets (such as the Collateral Manager), or any affiliate of such a person (any of the foregoing, a "Controlling Person"), shall be disregarded. Under the Plan Asset Regulation, an "affiliate" of a person includes any person, directly or indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person.

The Class E Shares are not debt under applicable local law and will be equity investments for purposes of applying ERISA and Section 4975 of the Code. Purchases and transfers of Class E Shares will be limited so that less than 25% of the value of Class E Shares (excluding those held by Controlling Persons) will be held by Benefit Plan Investors by requiring each purchaser or transferee of a Class E Share to make certain representations and agree to additional transfer restrictions described under "Notice to Investors." No purchase of a Class E Share by or proposed transfer to a person that has represented that it is a Benefit Plan Investor or a Controlling Person will be permitted to the extent that such purchase or transfer would result in persons that have represented that they are Benefit Plan Investors owning 25% or more of the outstanding Class E Shares immediately after such purchase or proposed transfer (determined in accordance with the Plan Asset Regulation and the Class E Shares Paying and Transfer Agency Agreement), based upon the assurances received from investors. In addition, the Initial Purchaser, the Collateral Manager and the Trustee agree that neither they nor any of their respective affiliates will acquire any Class E Shares unless such acquisition would not, as determined by the Trustee, result in persons that have acquired Class E Shares and represented that they are Benefit Plan Investors owning 25% or more of the outstanding Class E Shares immediately after such acquisition by the Initial Purchaser, the Collateral Manager or the Trustee. Class E Shares held as principal by the Collateral Manager, the Initial Purchaser, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding for purposes of determining compliance with such 25% limitation to the extent that such a Controlling Person is not a Benefit Plan Investor. Any Benefit Plan Investor that acquires Class E Shares will be required to represent and agree that the acquisition and holding of the Class E Shares do not and will not constitute a prohibited transaction under ERISA, Section 4975 of the Code or any federal, state, local or foreign law which is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

The U.S. Supreme Court, in *John Hancock* (noted above), held that those funds allocated to the general account of an insurance company pursuant to a contract with an employee benefit plan that vary with the investment experience of the insurance company are "plan assets." In the preamble to PTCE 95-60 (also noted above), the DOL noted that, for purposes of calculating the 25% threshold under the significant participation test of the Plan Asset Regulation, only the proportion of an insurance company general account's equity investment in the entity that represents "plan assets" should be taken into account in calculating that portion of the general account that is a Benefit Plan Investor. Any insurance company using general account assets to purchase Class E Shares will be asked (i) to identify the maximum percentage of the assets of the general account that may be or become "plan assets" (ii) whether it is a Controlling Person and (iii) without limiting the remedies that may be available in the event that the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of Class E Shares as instructed by the Issuer, before the specified maximum percentage is exceeded.

LISTING AND GENERAL INFORMATION

(1) Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought or granted. Copies of this offering circular, the Memorandum and Articles of Association of the Issuer and the organization documents of the Co-Issuer, the Indenture, the Collateral Management Agreement, the Class E Shares Paying and Transfer Agency Agreement and any Hedge Agreements will be deposited with the Note Paying Agents, the Listing and Paying Agent and at the registered office of the Issuer, where copies thereof may be obtained, free of charge, upon request within fourteen days of the date of the Listing Particulars.

(2) Copies of the Memorandum and Articles of Association of the Issuer, the organizational documents of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Securities, and the execution of the Indenture, the Class E Shares Paying and Transfer Agency Agreement, the Collateral Management Agreement and the Hedge Agreements and the resolutions of the sole member of the Co-Issuer authorizing the issuance of the Notes, and the execution of the Indenture may be obtained free of charge upon request within thirty days of the date of this offering circular at the office of a Paying Agent on behalf of the Issuer.

(3) Each of the Issuers represents that there has been no material adverse change in its financial position since its date of creation.

(4) The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to deliver to the Trustee a Director's Certificate stating, as to each signatory thereof, that (a) a review of the activities of the Issuer during the prior year and of the Issuer's performance under the Indenture has been made under his supervision; and (b) to the best of his knowledge, based on such review, the Issuer has fulfilled all of its obligations under the Indenture throughout the prior year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof.

(5) The Issuers are not, and have not since incorporation or formation, as applicable, been, involved in any litigation or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes nor, so far as each of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

(6) The issuance of the Securities will be authorized by the Board of Directors of the Issuer by resolutions passed on or about the Closing Date. The issuance of the Notes will be authorized by the sole member of the Co-Issuer by action by written consent of the sole member passed on or about the Closing Date. Since incorporation or formation, as applicable, neither the Issuer nor the Co-Issuer has commenced trading or established any accounts, except as disclosed herein or accounts used to hold amounts received with respect to share capital and fees.

(7) The Notes sold in offshore transactions in reliance on Regulation S and represented by the Regulation S Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers ("ISIN") for the Notes represented by Regulation S Global Notes and Rule 144A Global Notes are as indicated below:

	Regulation S Global Notes			Rule 144A Global Notes	
	Common Code	CUSIP	ISIN	CUSIP	ISIN
Class A-1LT-a Notes	019782344	G81230AB3	USG81230AB35	82639RAB3	US82639RAB33
Class A-2 Notes	019782379	G81230AC1	USG81230AC18	82639RAC1	US82639RAC16
Class B Notes	019782387	G81230AD9	USG81230AD90	82639RAD9	US82639RAD98
Class C Notes	019782395	G81230AE7	USG81230AE73	82639RAE7	US82639RAE71
Class D Notes	019782409	G81230AF4	USG81230AF49	82639RAF4	US82639RAF47

(8) The CUSIP and ISIN numbers for the Class E Shares sold in reliance on Regulation S and Rule 144A are G8123K103 and KYG8123K1031 and 82639T103 and US82639T1034, respectively.

LEGAL MATTERS

Certain legal matters will be passed upon for the Collateral Manager by Ropes & Gray LLP. Certain legal matters will be passed upon the Issuer and the Initial Purchaser by Orrick, Herrington & Sutcliffe LLP. Certain matters with respect to Cayman Islands law will be passed upon for the Issuer by Maples and Calder, Grand Cayman, Cayman Islands.

INDEX OF DEFINED TERMS

UNDERWRITING

Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") dated as of July 29, 2004 among the Issuers and Goldman, Sachs & Co. as an Initial Purchaser, having its address at 85 Broad Street, New York, New York 10004, Attention: Mortgage Structuring, the Issuers have agreed to sell to the Initial Purchaser and the Initial Purchaser have agreed to purchase all of the Notes (other than the Class A-1LT-b Notes) and the Class E Shares.

Under the terms and conditions of the Purchase Agreement, the Initial Purchaser is committed to take and pay for all the Notes (other than the Class A-1LT-b Notes) and the Class E Shares to be offered by the Initial Purchaser, if any are taken. Furthermore, under the terms and conditions of the Purchase Agreement, the Initial Purchaser will be entitled to an underwriting discount on such Notes and the Class E Shares and a fixed structuring fee based upon the aggregate principal amount of the Notes and the aggregate stated amount of the Class E Shares. On the Closing Date, the Put Counterparty will be entitled to a fixed structuring fee.

The Securities purchased from the Issuers by the Initial Purchaser will be offered by them from time to time for sale in negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date.

The Securities have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a "U.S. Resident") except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by Goldman, Sachs & Co. that (a) it proposes to resell the Notes and the Class E Shares outside the United States through its agent, Goldman Sachs International, in offshore transactions in reliance on Regulation S and in accordance with applicable law and (b) it proposes to resell the Notes and the Class E Shares in the United States only to (1) Qualified Institutional Buyers in reliance on Rule 144A, each of which is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by the beneficiaries of the plan, purchasing for their own accounts or for the accounts of Qualified Institutional Buyers or (2) in the case of only the Class E Shares purchased by it, Accredited Investors, which have a net worth of not less than $10 million each of which purchasers or accounts is a Qualified Purchaser. The Initial Purchaser's discount will be the same for the Regulation S Notes, the Rule 144A Notes and the Class E Shares within each Class of Securities.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Regulation S Notes or Regulation S Class E Shares purchased by either of them to, or for the account or benefit of, any U.S. Person or U.S. Resident (as determined for purposes of the Investment Company Act) as part of its distribution at any time and that they will each send to their related distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Regulation S Notes or Regulation S Class E Shares purchased by it a confirmation or other notice setting forth the prohibition on offers and sales of the Regulation S Notes or Regulation S Class E Shares within the United States or to, or for the account or benefit of, any U.S. Person or U.S. Resident.

With respect to the Securities initially sold pursuant to Regulation S, until the expiration of (x) 40 days after the commencement of the distribution of the offering of the Notes by the Initial Purchaser, with respect to offers or sales of the Notes and (y) one year after the commencement of the distribution of the Class E Shares, with respect to offers or sales of the Class E Shares purchased by the Initial Purchaser, an offer or sale of such Securities within the United States by a dealer that is not participating in the

offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Initial Purchaser has agreed that (i) it has not offered or sold and prior to the expiry of six months from the Closing Date will not offer or sell any Notes or Class E Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent, for purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the "Regulations"); (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 of the United Kingdom (the "FSMA") with respect to anything done by them in relation to the Securities in, from or otherwise involving the United Kingdom; and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuers.

The Securities may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this offering circular nor any other document in respect of the offering of the Securities may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Notes or Class E Shares.

Buyers of Regulation S Notes sold by Goldman Sachs International, as the agent of Goldman, Sachs & Co., may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the purchase price.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or the possession, circulation or distribution of this offering circular or any other material relating to the Issuers or the Securities, in any jurisdiction where action for such purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this offering circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Securities are a new issue of securities with no established trading market. The Issuers have been advised by the Initial Purchaser that the Initial Purchaser may make a market in the Securities but it is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Securities. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of the Securities with liquidity of investment or that it will continue for the life of the Securities.

Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought or granted.

The Issuers have agreed to indemnify the Initial Purchaser, the Collateral Manager, the Administrator and the Trustee against certain liabilities, including in the case of the Initial Purchaser, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have made certain representations and warranties to the Initial Purchaser and have agreed to reimburse the Initial Purchaser for certain of its expenses.

The Initial Purchaser may, from time to time as principal or through one or more investment funds that it manages, make investments in the equity securities of one or more of the issuers of Collateral Assets with the result that one or more of such issuers may be or may become controlled by such Initial Purchaser.

APPENDIX A

Certain Definitions

"AAA/Aaa Jurisdictions" means jurisdictions whose unguaranteed, unsecured and otherwise, unsupported long term U.S. Dollar denominated sovereign debt obligations are rated "Aaa" by Moody's and "AAA" by S&P.

"ABS Automobile Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Asset-Backed Securities) on the cash flow from installment sale loans made to finance the purchase of, or from leases of, automobiles or light duty trucks or medium duty trucks, generally having the following characteristics: (i) the loans or leases may have varying contractual maturities; (ii) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a very diversified pool of obligor credit risk; (iii) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (iv) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"ABS Credit Card Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (i) the accounts have standardized payment terms and require minimum monthly payments; (ii) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (iii) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"ABS Other Securities" means a Structured Finance Security or Structured Corporate Security that cannot reasonably otherwise be classified under the RMBS Security, CMBS Security, CDO Security, Insured Security, REIT Debt Security or Interest Only Security Categories or under the ABS Automobile Security or ABS Credit Card Security Subcategories but excluding ABS Securities which are classified under an Approved Subcategory.

"Accounts" means collectively, the Collection Account, the Payment Account, the Securities Lending Account, the Expense Reserve Account, the Hedge Termination Receipts Account, the Hedge Replacement Account, the Hedge Collateral Account, the Collateral Account, the Synthetic Security Collateral Account, the Currency Swap Receipts Termination Account, the Currency Swap Replacement Account, the Currency Swap Collateral Account, the Default Swap Collateral Account, the CP Interest Reserve Account and the CP Principal Reserve Account.

"Actual Rating" means with respect to any Collateral Asset, Class of Notes, Eligible Investment or Synthetic Security Counterparty, the actual expressly monitored outstanding rating assigned by a Rating Agency without reference to any other rating by another Rating Agency, and which rating by its terms addresses the full scope of the payment promise of the obligor on such Collateral Asset (other than in the case of Haircut Assets), Class of Notes, Eligible Investment or Synthetic Security Counterparty, after taking into account any applicable guarantee or insurance policy or if no such rating is available from a Rating Agency, any "credit estimate" or "shadow rating" assigned by such Rating Agency*; provided, however,* that in the event the Collateral Manager requests that either Rating Agency issue a shadow rating or credit estimate in connection with a Haircut Asset, the Actual Rating with respect to such portion of the Collateral Asset will be such shadow rating or credit estimate irrespective of any actual, expressly monitored rating which may be assigned by such Rating Agency with respect to such Collateral Asset; *provided, further,* that the Actual Rating of any Form-Approved Synthetic Security which is not rated by

either Rating Agency will be the rating assigned to the Reference Obligation or, if such Form-Approved Synthetic Security is a Default Swap and the Issuer holds a Default Swap Collateral Account related thereto, the lower of the rating assigned to the Reference Obligation or the rating assigned to such Default Swap. For purposes of this definition, (i) the rating assigned by Moody's or S&P to a Collateral Asset, an Eligible Investment or Synthetic Security Counterparty placed on watch for possible downgrade by such Rating Agency will be deemed to have been downgraded by such Rating Agency by one subcategory, (ii) the rating assigned by Moody's or S&P to a Collateral Asset, Class of Notes, Eligible Investment or Synthetic Security Counterparty placed on watch for possible upgrade by such Rating Agency will be deemed to have been upgraded by such Rating Agency by one subcategory and (iii) the rating of a RMBS Agency Security shall be the rating assigned by a Rating Agency to the agency that guarantees such RMBS Agency Security.

"Adjusted Net Outstanding Portfolio Collateral Balance" means, on any Measurement Date, the Net Outstanding Portfolio Collateral Balance reduced by the excess, if any, of (i) the product of (a) the Statistical Loss Amount and (b) the lesser of 1 and a fraction the numerator of which is $1,500,000,000 and the denominator of which is the Net Outstanding Portfolio Collateral Balance as of such Measurement Date over (ii) the product of (a) a scheduled amount based on the most recent Payment Date as follows:

Closing Date – September 2005:	$1,700,000
October 2005 – September 2006:	$1,540,000
October 2006 – September 2007:	$1,370,000
October 2007 – September 2008:	$1,200,000
October 2008 – September 2009:	$1,030,000
October 2009 and thereafter:	$860,000

and (b) the lesser of 1 and a fraction the numerator of which is the Net Outstanding Portfolio Collateral Balance as of such Measurement Date and denominator of which is $1,500,000,000.

"Administration Agreement" means the Administration Agreement dated the Closing Date by and between the Administrator and the Issuer, as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms, pursuant to which the Administrator shall perform various administrative functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services.

"Administrative Expenses" means amounts due or accrued with respect to any Payment Date and payable by the Issuer and/or the Co-Issuer to (i) the Trustee pursuant to the Indenture or any co-trustee appointed pursuant to the Indenture; (ii) the Administrator pursuant to the Administration Agreement; (iii) the independent accountants, agents (including the Note Agents under the Indenture, the Class E Share Agents under the Class E Shares Paying and Transfer Agency Agreement the Collateral Administrator under the Collateral Administration Agreement and the CP Issuing and Paying Agent under the CP Issuing and Paying Agency Agreement) and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuers); (iv) the Collateral Manager pursuant to the Collateral Management Agreement (other than the Collateral Management Fee) including, without limitation, any fees and expenses incurred in connection with an Auction; (v) the CP Note Placement Agents pursuant to the CP Note Placement Agreements (other than the CP Note Placement Agent Fee); (vi) any stock exchange listing Notes or Class E Shares at the request of the Issuer; (vii) the agents appointed for service of process; (viii) the Rating Agencies for fees and expenses in connection with any rating (including the fees payable to the Rating Agencies for the monitoring of any rating or credit estimate) of the Securities (and CP Notes, if such rating or credit estimate is sought), including fees and expenses, if any, due or accrued in connection with any rating of the Collateral Assets; (ix) any other person in respect of any governmental fee, charge or tax in relation to the Issuer or the Co-Issuer; (x) to the liquidator(s) of the Issuer for the fees and expenses of liquidating the Issuer following the redemption or Defeasance of all of the Notes, CP Notes and Class E Shares, as applicable; and (xi) any other person in respect of any other fees or expenses (including indemnities and

fees relating to the provision of the Issuer's registered office) permitted under the Transaction Documents; *provided* that Administrative Expenses shall not include (a) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (b) amounts payable in respect of the Notes, CP Notes and Class E Shares, (c) amounts payable under any Hedge Agreement and the Put Agreement and (d) any Collateral Management Fee payable pursuant to the Collateral Management Agreement.

"Administrator" means Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands, and any successor thereto appointed under the Administration Agreement.

"Affiliate" means, with respect to a person, (a) any other person who, directly or indirectly, through one or more intermediaries, is in control of, or controlled by, or is under common control with, such person or (b) any other person who is a director, officer, employee, managing member or general partner of (a) such person or (b) any such other person described in clause (a) above. For the purposes of this definition, "control" of a person shall mean the power, direct or indirect, (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (ii) to direct or cause the direction of the management and policies of such person whether by contract or otherwise; *provided* that, for purposes of determining whether a person is in control of, or controlled by, or is under common control with, the Collateral Manager, "control" of a person shall mean the power, direct or indirect, (a) to vote more than 25% of the securities having ordinary voting power for the election of directors of such person or (b) to direct or cause the direction of the management and policies of such person whether by contract or otherwise; *provided, further,* that no other special purpose company to which the Administrator provides directors and acts as share trustee shall be an Affiliate of the Issuer or the Co-Issuer.

"Agency" means Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Government National Mortgage Association.

"Aggregate Amortized Cost" means, with respect to any Interest Only Security as of any date of determination, (a) on the date of acquisition thereof by the Issuer, the cost of purchase thereof and (b) on any date thereafter, the present value of all remaining payments on such Interest Only Security (as projected on such date), discounted to such date of determination as of each subsequent due date at a discount rate per annum equal to the internal rate of return on such Interest Only Security as calculated in good faith by the Collateral Manager at the time of purchase thereof by the Issuer.

"Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds" means the least of (a) the Aggregate Moody's Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, (b) the Aggregate S&P Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, and (c) the aggregate of the Market Values of all Defaulted Obligations and Deferred Interest PIK Bonds.

"Aggregate Moody's Recovery Value" means, with respect to Defaulted Obligations and Deferred Interest PIK Bonds, the aggregate of (a) the Moody's Recovery Rate for each such asset multiplied by (b) the Principal Balance of such asset.

"Aggregate Outstanding Amount" means, with respect to any of the Notes, CP Notes or Class E Shares, the aggregate principal amount of such Notes or CP Notes or the Stated Amount of Class E Shares outstanding at the date of determination.

"Aggregate Principal Amount" means the aggregate of the Principal Balances of all Collateral Assets and Eligible Investments purchased with Principal Proceeds and the amount of any cash which constitutes Principal Proceeds and all accrued interest purchased with Principal Proceeds.

"Aggregate Principal Balance" means, when used with respect to Collateral Assets, the sum of the Principal Balances of all the Collateral Assets on the date of determination.

"Aggregate S&P Recovery Value" means, the sum of, with respect to each Defaulted Obligation and each Deferred Interest PIK Bond, of the lesser of (a) the Market Value for such Defaulted Obligation or Deferred Interest PIK Bond, as applicable, and (b) the S&P Recovery Rate for such Collateral Asset multiplied by the Principal Balance of such Collateral Asset.

"Alternative Debt Test" means a test that is satisfied with respect to a Collateral Asset if, on the date the Issuer acquires a Collateral Asset, each of the following is satisfied: (i) such Collateral Asset is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such Collateral Asset, (ii) the documents pursuant to which such Collateral Asset was offered, if any, do not require that any holder thereof treat such Collateral Asset other than as debt for tax purposes, (iii) such Collateral Asset bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index *plus* or *minus* a spread, (iv) such Collateral Asset has a fixed maturity occurring no later than September 2, 2044, (v) such Collateral Asset has an Actual Rating or Implied Rating of at least "Baa3" by Moody's and is rated at least "BBB-" by S&P as to ultimate payment of principal and interest and (vi) the issuer of such Collateral Asset is treated as a corporation or grantor trust for U.S. federal income tax purposes*; provided* that, in the case of a Collateral Asset in the form of a beneficial interest in a trust that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such Collateral Asset was offered) as a grantor trust for U.S. federal income tax purposes (and not as a partnership or association taxable as a corporation), any of the conditions specified in clauses (i), (ii), (iii) and (iv) may be satisfied by reference to each asset held pursuant to such grantor trust arrangement rather than by reference to such beneficial ownership interests.

"Applicable Amount for Interest Only Securities" means an amount calculated on each Measurement Date, based on the interest payments received or expected to be received in the related Due Period on an Interest Only Security based on the credit rating of the securities of the other classes of the same issue from which payments on such Interest Only Security are stripped (the "Stripped Classes"), such amount being (i) if all of the Stripped Classes have been assigned a rating at the time of such calculation of at least investment grade by each Rating Agency that rated such Stripped Class ("Investment-Grade Stripped Classes"), 100% of such payments and expected interest payments and (ii) in each other case, the percentage (as calculated by the Issuer) of such expected interest payments equal to a fraction, the numerator of which is the aggregate principal balance of the Investment-Grade Stripped Classes and the denominator of which is the aggregate principal balance of all Stripped Classes.

"Applicable Recovery Rate" means, with respect to any Collateral Asset on any Measurement Date, the lesser of (a) the Moody's Recovery Rate and (b) the S&P Recovery Rate *provided* that in the event any Haircut Asset becomes a Defaulted Obligation, the Applicable Recovery Rate for such Haircut Asset will be as assigned by the applicable Rating Agency that would result in the lowest recovery amount.

"Approved Subcategory" means a Subcategory of ABS Securities, RMBS Securities, CMBS Securities or CDO Securities (i) with respect to which more than 75% by principal balance of the underlying assets were not originated in the United States or (ii) any other Subcategory designated by the Collateral Manager after the Closing Date as an "Approved Subcategory" in a notice to the Trustee; *provided* that each Rating Agency has confirmed in writing (either privately or in a publicly available document) to the Issuer, the Trustee and the Collateral Manager that such designation has been recognized by such Rating Agency as a classification of a separate Subcategory.

"Asset-Backed Securities" or "ABS Securities" means ABS Credit Card Securities, ABS Automobile Securities, ABS Other Securities or any other securities within an Approved Subcategory of ABS Securities.

"Assumed Reinvestment Rate" means on any day, LIBOR as of the most recent LIBOR Determination Date less 0.375% per annum.

"Auction Redemption Price" means (i) with respect to the Class A-1LT-a Notes, an amount equal to the outstanding principal amount of the Class A-1LT-a Notes *plus* accrued and unpaid interest thereon at the applicable Class A-1LT-a Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Auction Payment Date, (ii) with respect to the Class A-1LT-b Notes, an amount equal to the outstanding principal amount of the Class A-1LT-b-1 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-1 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) and an amount equal to the outstanding principal amount of the Class A-1LT-b-2 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest), to but excluding the Auction Payment Date, (iii) with respect to the Class A-2 Notes, an amount equal to the outstanding principal amount of the Class A-2 Notes *plus* accrued and unpaid interest thereon at the Class A-2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Auction Payment Date, (iv) with respect to the Class B Notes, an amount equal to the outstanding principal amount of the Class B Notes *plus* accrued and unpaid interest thereon at the Class B Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Auction Payment Date, (v) with respect to the Class C Notes, an amount equal to the outstanding principal amount of the Class C Notes *plus* accrued and unpaid interest thereon at the Class C Note Interest Rate (including Defaulted Interest and Deferred Interest and interest on Defaulted Interest and Deferred Interest) to but excluding the Auction Payment Date, (vi) with respect to the Class D Notes, an amount equal to the outstanding principal amount of the Class D Notes *plus* accrued and unpaid interest thereon at the Class D Note Interest Rate (including Defaulted Interest and Deferred Interest and interest on Defaulted Interest and Deferred Interest) to but excluding the Auction Payment Date, (vii) with respect to the CP Notes (other than the LIBOR CP Notes) to be Defeased, the amount payable to the CP Issuing and Paying Agent for payment to the Holders thereof on the applicable maturity date on which such CP Notes mature in accordance with their terms, *plus* with respect to any LIBOR CP Notes to be redeemed and Defeased, the outstanding principal amount of the LIBOR CP Notes and accrued and unpaid interest thereon at the LIBOR CP Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Auction Payment Date and (viii) with respect to the Class E Shares, an amount equal to the Rated Stated Amount of the Class E Shares.

"Bid Spread Amount" means the spread over LIBOR requested by a Qualified Bidder.

"Board of Directors" means, with respect to the Issuer, the directors of the Issuer duly appointed by the shareholders or the directors of the Issuer.

"Calculation Amount" means, with respect to any Defaulted Obligation or Deferred Interest PIK Bond at any time, the lesser of (a) the Market Value of such Defaulted Obligation or Deferred Interest PIK Bond or (b) the Applicable Recovery Rate *multiplied by* the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond. For purposes of determining the Calculation Amount, the Principal Balance of a Defaulted Obligation shall be deemed to be its outstanding principal amount and the Principal Balance of a Deferred Interest PIK Bond shall be deemed to be its outstanding principal amount without regard to any deferred or capitalized interest.

"Capped CP Amount" means an amount equal to the product of (a) the aggregate face amount of CP Notes (excluding LIBOR CP Notes) then outstanding, (b) LIBOR *plus* 0.16% and (c) the actual number of days in the related Interest Accrual Period divided by 360.

"Category" means with respect to a Collateral Asset, the classification of such Collateral Asset as an Asset-Backed Security, Commercial Mortgage-Backed Security, Residential Mortgage-Backed Security, REIT Debt Security, CDO Security, Insured Security or Interest Only Security.

"CDO Commercial Real Estate Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of CMBS Securities and REIT Debt Securities.

"CDO Corporate Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from (and not the market value of) a portfolio of Corporate Securities.

"CDO RMBS Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of RMBS Securities.

"CDO Securities" means collateralized debt obligations, collateralized bond obligations or collateralized loan obligations (including, without limitation, any synthetic collateralized debt obligations or collateralized loan obligations) which may be categorized as CDO Structured Product Securities, CDO RMBS Securities, CDO Commercial Real Estate Securities or CDO Corporate Securities or any security within an Approved Subcategory of CDO Securities.

"CDO Structured Product Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from a portfolio diversified among Categories of REIT Debt Securities, Asset-Backed Securities, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities and CDO Securities or any combination of more than one of the foregoing or solely of CDO Securities (and which may include limited amounts of Corporate Securities), generally having the following characteristics: (i) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium, and (ii) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

"Class A Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the aggregate outstanding principal amount of the Class A Notes and the CP Notes, after giving effect to payments or defeasance, as applicable, to be made on the succeeding Payment Date (or, with respect to Defeasance, thereafter) in accordance with the Priority of Payments.

"Class A Note Break Even Default Rate" means the maximum percentage of defaults that the Proposed Portfolio can sustain after giving effect to S&P's assumptions on recoveries, defaults and timing and to the Priority of Payments such that sufficient funds will remain for the payment of principal of the Class A Notes in full by their respective Stated Maturities and the timely payment of interest on the Class A Notes.

"Class A Note Default Differential" means with respect to any Measurement Date, the rate obtained by subtracting the Class A Note Scenario Default Rate from the Class A Note Break Even Default Rate.

"Class A Note Scenario Default Rate" means an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P's rating of the Class A-1LT-a Notes, the Class A-1LT-b Notes and the Class A 2 Notes on the Closing Date, determined by application of the S&P CDO Monitor.

"Class A Note Stressed Default Rate" means an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P's rating of the Class A-1LT-a Notes, the Class A-1LT-b Notes and the Class A 2 Notes on the Closing Date, determined by application of the S&P CDO Monitor.

"Class B Adjusted Overcollateralization Ratio" means with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance divided by the sum of the aggregate outstanding principal amount of the Class A Notes, the CP Notes and the Class B Notes, after giving effect to payments or Defeasance, as applicable, to be made on the succeeding Payment Date (or, with respect to Defeasance, thereafter) in accordance with the Priority of Payments.

"Class B Note Break-Even Default Rate" means the maximum percentage of defaults that the Proposed Portfolio can sustain after giving effect to S&P's assumptions on recoveries, defaults and timing and to the Priority of Payments such that sufficient funds will remain for the payment of principal of the Class B Notes in full by their Stated Maturity and the timely payment of interest on such Class B Notes.

"Class B Note Default Differential" means with respect to any Measurement Date, the rate obtained by subtracting the Class B Note Stressed Default Rate from the Class B Note Break-Even Default Rate.

"Class B Note Stressed Default Rate" means an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P's rating of the Class B Notes on the Closing Date, determined by application of the S&P CDO Monitor.

"Class C Note Break-Even Default Rate" means the maximum percentage of defaults that the Proposed Portfolio can sustain after giving effect to S&P's assumptions on recoveries, defaults and timing and to the Priority of Payments such that sufficient funds will remain for the payment of principal of the Class C Notes in full by their Stated Maturity and for the ultimate payment of interest on such Class C Notes.

"Class C Note Default Differential" means, with respect to any Measurement Date, the rate obtained by subtracting the Class C Note Stressed Default Rate from the Class C Note Break-Even Default Rate.

"Class C Note Stressed Default Rate" means an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P's rating of the Class C Notes on the Closing Date, determined by application of the S&P CDO Monitor.

"Class D Note Break-Even Default Rate" means the maximum percentage of defaults that the Proposed Portfolio can sustain after giving effect to S&P's assumptions on recoveries, defaults and timing and to the Priority of Payments such that sufficient funds will remain for the payment of principal of the Class D Notes in full by their Stated Maturity and for the ultimate payment of interest on such Class D Notes.

"Class D Note Default Differential" means with respect to any Measurement Date, the rate obtained by subtracting the Class D Note Stressed Default Rate from the Class D Note Break-Even Default Rate.

"Class D Note Stressed Default Rate" means an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P's rating of the Class D Notes on the Closing Date, determined by application of the S&P CDO Monitor.

"Class D Notes Amortizing Principal Amount" means, with respect to any Payment Date commencing with the Payment Date in October 2004, an amount equal to (a) U.S. $125,000 if the Class D Ratio is equal to or greater than 100% and the principal balance of the Class D Notes (including any Deferred Interest and any Defaulted Interest and interest thereon) is equal to or less than the principal balance of the Class D Notes on any prior Payment Date, otherwise (b) U.S. $166,667.

The "Class D Ratio" means, with respect to any Measurement Date, the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (ii) the sum of the aggregate outstanding principal amount of the CP Notes, *plus* the aggregate outstanding principal amount of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes (including Class C Deferred Interest and Class D Deferred Interest) *minus* any amount deposited in the CP Principal Reserve Account to Defease the CP Notes.

"Class E Share Payment Account" means a segregated trust account, designated as the "Class E Share Payment Account, JPMorgan Chase Bank (London office), as Class E Share Paying Agent for the benefit of the Class E Shareholders of Sierra Madre Funding, Ltd.," established by the Class E Share Paying Agent pursuant to the Class E Shares Paying and Transfer Agency Agreement.

"CMBS Conduit Securities" means Commercial Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a pool of commercial mortgage loans generally having the following characteristics: (i) the commercial mortgage loans have varying contractual maturities; (ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (iii) the commercial mortgage loans are obligations of a limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; and (iv) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors; however, in the case of loans bearing interest at a fixed rate, such loans or securities typically include significant or complete prepayment protection.

"CMBS Credit Tenant Lease Securities" means Commercial Mortgage-Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases). They generally have the following characteristics: (i) the commercial mortgage loans or leases have varying contractual maturities; (ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (iii) the leases are secured by leasehold interests; (iv) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (v) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; and (vi) the creditworthiness of such corporate tenants is an important factor in any decision to invest in these securities.

"CMBS Franchise Securities" means Commercial Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities)

on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil, gasoline, restaurant or food services and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. Such securities generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; and (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payment at the end of the lease term.

"CMBS Large Loan Securities" means Commercial Mortgage-Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a commercial mortgage loan or a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. They generally have the following characteristics: (i) the commercial mortgage loans have varying contractual maturities; (ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (iii) the commercial mortgage loans are obligations of a limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk (including in comparison to CMBS Conduit Securities); (iv) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; (v) the valuation of individual properties securing the commercial mortgage loans is the primary factor in any decision to invest in these securities; and (vi) the commercial mortgage loans have relatively large average balances (including in comparison to RMBS Securities).

"CMBS RE-REMIC Securities" means securities that represent an interest in a real estate mortgage investment conduit backed by CMBS Securities.

"Collateral Account" means a segregated trust account, designated as the "Collateral Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties and which may be divided into subaccounts for administrative purposes.

"Collateral Administration Agreement" means the Collateral Administration Agreement, dated as of the Closing Date, between the Issuer, the Collateral Administrator and the Collateral Manager, as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Collateral Administrator" means JPMorgan Chase Bank until a successor person shall become the collateral administrator pursuant to the provisions of the Collateral Administration Agreement, and thereafter "Collateral Administrator" shall mean such successor person as Collateral Administrator under the Collateral Administration Agreement.

"Collateral Management Fee" means, collectively, the Base Collateral Management Fee, the Debt Subordinate Collateral Management Fee and the Class E Shares Subordinate Collateral Management Fee.

"Collateral Portfolio" means, on any Measurement Date, the portfolio of (i) Collateral Assets, (ii) Principal Proceeds held as cash and Eligible Investments purchased with Principal Proceeds and (iii) the portion, if any, of the net proceeds from, and associated with, the offering of the Notes and the CP Notes which have not yet been invested in Collateral Assets (whether held in cash or Eligible Investments).

"Collection Account" means a trust account which may be a subaccount of the Collateral Account, designated as the "Collection Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties and which may be divided into subaccounts for administrative purposes.

"Commercial Mortgage-Backed Securities" or "CMBS Securities" means securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers and shall include, without limitation, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, CMBS RE-REMIC Securities and CMBS Franchise Securities or any other securities within an Approved Subcategory of CMBS Securities.

"Conditions to Exercise" shall have the meaning set forth in the Put Agreement.

"Corporate Securities" means publicly issued or privately placed debt obligations of corporate issuers which are not REIT Debt Securities, Insured Securities or CDO Securities.

"CP Account" means the segregated trust account established by the CP Issuing and Paying Agent under the CP Issuing and Paying Agency Agreement.

"CP Face Amount" means with respect to any CP Note, the amount payable to the Holder thereof at Maturity (excluding interest on LIBOR CP Notes).

"CP Interest Reserve Required Amount" means, as of any date of determination, the sum of (a) the discount due on any CP Notes already committed up to and including the next Payment Date and (b) for each CP Note maturing (assuming no extension) on or prior to the next Payment Date, the discount that would be required to issue new discount CP Notes with a 90 day maturity date and with a CP Face Amount equal to the maturing CP Notes (less amounts currently held in the CP Principal Reserve Account) at the Forward Expected LIBOR Rate *plus* 0.16%.

"CP Note Placement Agent Fee" has the meaning set forth in the CP Note Placement Agreements.

"CP Principal Reserve Required Amount" means on each Payment Date, an amount equal to the Notional Amount of the CP Notes.

"Currency Swap Collateral" means any cash, securities or other collateral delivered and/or pledged by a Currency Swap Counterparty to or for the benefit of the Issuer, including, without limitation, any up-front payment of cash or delivery of securities made by the Currency Swap Counterparty to satisfy or secure its payment obligations pursuant to the terms of the related Currency Swap Agreement.

"Currency Swap Collateral Account" means a segregated trust account, designated as the "Currency Swap Collateral Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of Secured Parties and which may be divided into subaccounts for administrative purposes.

"Currency Swap Receipt Amount" means, with respect to the Currency Swap Agreements and any Payment Date, the amount, if any, then payable to the Issuer by the Currency Swap Counterparties, including any amounts so payable in respect of a termination of any Currency Swap Agreement.

"Currency Swap Receipts Termination Account" means a segregated trust account, designated as the "Currency Swap Receipts Termination Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of Secured Parties and which may be divided into subaccounts for administrative purposes.

"Currency Swap Replacement Account" means a segregated trust account, designated as the "Currency Swap Replacement Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of Secured Parties and which may be divided into subaccounts for administrative purposes.

"Current Actual Balance" means the current outstanding principal balance of any Collateral Asset (without application of any haircut or reduction in balance) less any capitalized or deferred interest that is included in such balance.

"Current Interest Rate" means, as of any Measurement Date, (i) with respect to any Collateral Asset which is a Fixed Rate Security, the stated rate at which interest accrues on such Fixed Rate Asset and (ii) with respect to any Collateral Asset which is a Deemed Fixed Collateral Asset, the Weighted Average Deemed Fixed Spread *plus* the Weighted Average Deemed Fixed Rate.

"Current Portfolio" means the portfolio (measured by Principal Balance) of Collateral Assets, Principal Proceeds held as cash and Eligible Investments purchased with Principal Proceeds, on any Measurement Date, existing immediately prior to the sale, maturity or other disposition of a Collateral Asset or immediately prior to the acquisition of a Collateral Asset, as the case may be.

"Deemed Fixed Asset Hedge" means an interest rate swap having a notional amount (or scheduled notional amounts) approximately equal to the Principal Balance (as it may be reduced by expected amortization) of the related Floating Rate Security; *provided* that, (i) at the time of entry into the Deemed Fixed Asset Hedge, the principal payments on the Floating Rate Security comprising a Deemed Fixed Collateral Asset will not extend beyond 15 years after the Closing Date, (ii) the Rating Agencies and the Trustee are notified prior to the Issuer's entry into a Deemed Fixed Asset Hedge, and will be provided with the identity of the hedge counterparty and copies of the hedge documentation and notional schedule, (iii) such Deemed Fixed Asset Hedge shall require satisfaction of the Rating Agency Condition to the extent the applicable master agreement or schedule attached thereto is not a Form-Approved Hedge Agreement, (iv) such Deemed Fixed Asset Hedge is priced at then-current market rates and (v) at the time of entry into the Deemed Floating Asset Hedge, the duration weighted average swap rate of all Interest Rate Swaps (including any Deemed Fixed Rate Asset Hedges and any Deemed Floating Rate Asset Hedges) is not greater than 6.076% on or before the September 2006 Payment Date and 5.926% thereafter.

"Deemed Fixed Collateral Asset" means a Floating Rate Security at the time of entry into a Deemed Fixed Asset Hedge with respect to such Floating Rate Security; *provided* that at the time of entry into the Deemed Fixed Asset Hedge the average life of the Deemed Fixed Collateral Asset must not increase or decrease by more than one year from its expected average life if it were to prepay at either 200% or 50% of its pricing speed.

"Deemed Fixed Rate" will equal the fixed rate that the Hedge Counterparty agrees to pay on the Deemed Fixed Asset Hedge at the time such hedge is executed.

"Deemed Floating Asset Hedge" means an interest rate swap having a notional amount (or scheduled notional amounts) approximately equal to the Principal Balance (as it may be reduced by expected amortization) of the related Fixed Rate Security; *provided* that, (i) at the time of entry into the

Deemed Floating Asset Hedge, the principal payments on the Fixed Rate Security comprising a Deemed Floating Collateral Asset will not extend beyond 15 years after the Closing Date, (ii) the Rating Agencies and the Trustee are notified prior to the Issuer's entry into a Deemed Floating Asset Hedge, and will be provided with the identity of the hedge counterparty and copies of the hedge documentation and notional schedule, (iii) such Deemed Floating Asset Hedge shall require satisfaction of the Rating Agency Condition to the extent the applicable master agreement or schedule attached thereto is not a Form-Approved Hedge Agreement, (iv) such Deemed Floating Asset Hedge is priced at then-current market rates and (v) at the time of entry into the Deemed Floating Asset Hedge, the duration weighted average swap rate of all Interest Rate Swaps (including any Deemed Fixed Rate Asset Hedges and any Deemed Floating Rate Asset Hedges) is not greater than 6.076% on or before the September 2006 Payment Date and 5.926% thereafter.

"Deemed Floating Collateral Asset" means a Fixed Rate Security at the time of entry into a Deemed Floating Asset Hedge with respect to such Fixed Rate Security*; provided* that at the time of entry into the Deemed Floating Asset Hedge the average life of the Deemed Floating Collateral Asset must not increase or decrease by more than one year from its expected average life if it were to prepay at either 200% or 50% of its pricing speed.

"Default Swap" means a credit default swap entered into by the Issuer and any Synthetic Security Counterparty, evidenced by the related ISDA Master Agreement and a confirmation which satisfies the Eligibility Criteria at the time of grant thereof.

"Defaulted Hedge Termination Payments" means any termination payment required to be made by the Issuer to a Hedge Counterparty pursuant to a Hedge Agreement in the event of a termination of such Hedge Agreement (other than a termination for illegality or a Tax Event) in respect of which such Hedge Counterparty is the sole Defaulting Party or Affected Party (each, as defined in the applicable Hedge Agreement).

"Defaulted Interest" means any interest due and payable in respect of (i) any Class A Note, LIBOR CP Note or Class B Note or (ii) if there are no CP Notes, Class A Notes or Class B Notes outstanding, any Class C Notes or if there are no CP Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Notes which, in any such case, is not punctually paid or duly provided for on the applicable Payment Date.

"Defaulted Obligation" means any Collateral Asset with respect to which:

(i) there has occurred and is continuing for the lesser of 3 Business Days and any applicable grace period (other than with respect to any Collateral Asset which has reached its stated maturity date as to which no 3 Business Day period or grace period shall apply), a default with respect to the payment of interest or principal on such Collateral Asset; *provided*, the Collateral Asset shall not constitute a Defaulted Obligation if and when such default has been cured through the payment of all past due interest and principal; *provided further, however*, that, notwithstanding the foregoing, (i) any Collateral Asset that is in default with respect to the payment of interest or principal as of the Determination Date shall be considered a Defaulted Obligation unless such default has been cured through the payment of all past due interest and principal within 3 Business Days after the Determination Date and (ii) any Collateral Asset (other than a PIK Bond) that has deferred with respect to the payment of scheduled interest or principal on more than three scheduled payment dates shall be considered a Defaulted Obligation;

(ii) if such Collateral Asset is a Synthetic Security, either (a) the related Reference Obligation or Reference Obligor would be a Defaulted Obligation were it a Collateral Asset, (b) such Synthetic Security is in default pursuant to its terms or (c) the Synthetic Security Counterparty is downgraded below the specified level pursuant to its terms;

(iii) any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer of such Collateral Asset and is unstayed and undismissed; *provided*, that, if such proceeding is an involuntary proceeding, the condition of this clause (iii) will not be satisfied until the earliest of the following: (I) the issuer consents to such proceeding, (II) an order for relief under the United States Bankruptcy Code, or any similar order under a proceeding not taking place under the United States Bankruptcy Code, has been entered, and (III) such proceeding remains unstayed and undismissed for 45 days;

(iv) such Collateral Asset has an S&P Rating of "CC" or lower or a rating of "D" or "SD" or has had its rating withdrawn after being rated "CC" or lower or "D" or "SD" or has a Moody's Rating of "Ca" or lower;

(v) the Collateral Manager knows the issuer thereof is in default as to payment of principal and/or interest on another obligation (and such default has not been cured through the payment of all past due interest and principal), but only if one of conditions (I) or (II) is met: (I) (A) both such other obligation and the Collateral Asset are full recourse unsecured obligations and the other obligation is senior to or pari passu with the Collateral Asset in right of payment or (B) (x) such other obligation is a full recourse secured obligation and the Collateral Asset is a full recourse secured obligation or (y) the Collateral Asset is a full recourse unsecured obligation and the other obligation is senior to or pari passu (except that it is secured) with the Collateral Asset in right of payment; or (II) all of the following conditions (A), (B) and (C) are satisfied: (A) both such other obligation and the Collateral Asset are full recourse secured obligations secured by common collateral; (B) the security interest securing the other obligation is senior to or pari passu with the security interest securing the Collateral Asset; and (C) the other obligation is senior to or pari passu with the Collateral Asset in right of payment, except that a Collateral Asset shall not constitute a "Defaulted Obligation" under this clause (v) if the Collateral Manager has notified each Rating Agency in writing of its decision not to treat the Collateral Asset as a Defaulted Obligation, and the Rating Agency Condition has been satisfied; or

(vi) the principal amount of such Collateral Asset has been written down or reduced pursuant to the terms of the Underlying Instruments as a result of an allocation of realized losses or otherwise;

provided that, a Haircut Asset will be considered a Defaulted Obligation if the related Collateral Asset becomes a Defaulted Obligation (as described above) *provided further* that, notwithstanding the satisfaction of all of the foregoing items (i-vi), the Collateral Manager may declare any Collateral Asset to be a Defaulted Obligation if, in the Collateral Manager's reasonable business judgment, the credit quality of the issuer of such Collateral Asset (or, in the case of a Synthetic Security, the credit quality of the counterparty or issuer of the Reference Obligation with respect thereto) has significantly deteriorated such that there is a reasonable expectation of payment default as of the next scheduled payment date with respect to such Collateral Asset.

"Deferred Interest PIK Bond" means a PIK Bond with respect to which interest thereon has been deferred and capitalized more than once in the last 12 monthly periods.

"Deliverable Obligation" means a debt obligation that may be or is delivered to the Issuer upon the occurrence of a "credit event" under a Synthetic Security that would satisfy the Eligibility Criteria; *provided however*, that the debt obligation need not satisfy clauses (xi), (xix) and (xxiv) of the requirements set forth under the heading "General Eligibility Criteria" herein and clause (ii) of the requirements set forth under the heading "Interest Only Security Eligibility Criteria and Profile Test" and may be delivered to the Issuer notwithstanding the fact that the delivery of such Collateral Asset may cause the Issuer to fail a Collateral Profile Test.

"Distribution Compliance Period" means the period ending on the 40th day after the later of the conclusion of the offering of the Notes and the Closing Date.

"Double B Calculation Amount" means the sum of the products of (i) the Principal Balance of each Double B Rated Asset and (ii) 90%.

"Double B Rated Asset" means any Collateral Asset with an Actual or Implied Rating from S&P less than "BBB-" but greater than "B+" and with an Actual or Implied Rating from Moody's less than "Baa3" but greater than "B1".

"Exception Payment Date" means a Payment Date with respect to an Optional Redemption, Tax Redemption or redemption due to an Event of Default resulting in acceleration of the Notes and liquidation of the Collateral.

"Excess Assets" means any Collateral Asset so designated by the Collateral Manager to the Issuer and the Trustee prior to any Determination Date for application on such Determination Date, *provided* that (A) such Collateral Asset has an Actual Rating of not less than "A-" by S&P and not less than "A3" by Moody's and (B) the Aggregate Outstanding Amount of the Notes and the CP Notes (less any Defeased CP Notes) *plus* the Stated Amount of the Class E Shares is less than or equal to the Aggregate Principal Balance *minus* any Excess Assets.

"Extraordinary Resolution" means a resolution passed at a meeting of Holders of each affected Class of Notes duly convened and held in accordance with the terms of the Indenture and the Notes by not less than a SuperMajority of each such Class of Notes.

"Fixed Payment Rate" will equal the fixed rate that the Issuer agrees to pay on the Deemed Floating Asset Hedge at the time such swap is executed.

"Fixed Rate Assets" means the aggregate Principal Balance of Collateral Assets that are Fixed Rate Securities less the aggregate Principal Balance of Deemed Floating Collateral Assets.

"Fixed Rate Security" means any Collateral Asset which is not a Floating Rate Security*; provided* that the Collateral Manager may reclassify any Fixed Rate Security as a Floating Rate Security if such reclassification satisfies the Rating Agency Condition.

"Floating Rate Assets" means the aggregate Principal Balance of Collateral Assets that are Floating Rate Securities less the aggregate Principal Balance of Deemed Fixed Collateral Assets.

"Floating Rate Security" means any Collateral Asset, the interest rate on which resets pursuant to an index after the date of purchase by the Issuer*; provided* that the Collateral Manager may reclassify any Floating Rate Security as a Fixed Rate Security (i) if such reclassification satisfies the Rating Agency Condition or (ii) if it has a related balance guaranteed swap.

"Form-Approved Currency Swap Agreement" means a Currency Swap Agreement which the Issuer may enter into without satisfaction of the Rating Agency Condition in the specific instance because the documentation conforms to a form which has satisfied the Rating Agency Condition as a Form-Approved Currency Swap Agreement (as certified to the Trustee by the Collateral Manager); *provided*, that, notwithstanding the fact that the Rating Agency Condition shall have been satisfied in connection with the documentation of any such Currency Swap Agreement, either Rating Agency, upon 30 days notice to the Issuer, the Trustee and the Collateral Manager may declare that, commencing on the date specified in such notice (such date not earlier than the date of such notice), Currency Swap Agreements proposed to be acquired by the Issuer using such documentation shall not constitute Form-Approved Currency Swap Agreements.

"Form-Approved Hedge Agreement" means a Deemed Fixed Asset Hedge or a Deemed Floating Asset Hedge with respect to which the related Fixed Rate Security or any Floating Rate Security could be purchased by the Issuer without satisfaction of the Rating Agency Condition in the specific instance because the documentation conforms to a form which has satisfied the Rating Agency Condition as a

Form-Approved Hedge Agreement (as certified to the Trustee by the Collateral Manager) and which shall include any Hedge Agreement substantially in the form of the Hedge Agreement in effect on the Closing Date; *provided*, that, notwithstanding the fact that the Rating Agency Condition shall have been satisfied in connection with the documentation of any such Hedge Agreement, either Rating Agency, upon 30 days notice to the Issuer, the Trustee and the Collateral Manager may declare that, commencing on the date specified in such notice (such date not earlier than the date of such notice), Hedge Agreements proposed to be acquired by the Issuer using such documentation shall not constitute Form-Approved Hedge Agreements.

"Form-Approved Synthetic Security" means a Synthetic Security (a) the Reference Obligation of which, if it were a Collateral Asset, could be purchased by the Issuer without any required action by the Rating Agencies or as to which the Rating Agency Condition is satisfied, (b) the documentation of which conforms (but for the amount and timing of periodic payments, the name of the Reference Obligation, the notional amount, the effective date, the termination date and other similarly necessary changes) to a form which has satisfied the Rating Agency Condition as a Form-Approved Synthetic Security (as certified to the Trustee by the Collateral Manager) and (c) for which the Issuer has provided each Rating Agency with written notice of the purchase of such Synthetic Security and each Rating Agency has provided the Issuer with written acknowledgement of such notice at least 5 Business Days prior to such purchase; *provided*, that the S&P Recovery Rate or the Moody's Recovery Rate, as applicable, for such Synthetic Security shall be zero until provided by such Rating Agency to the Collateral Manager or the Trustee; *provided, further* that, notwithstanding the fact that the Rating Agency Condition shall have been satisfied in connection with the documentation of any such Synthetic Security, either Rating Agency, upon 30 days notice to the Issuer, the Trustee and the Collateral Manager may declare that, commencing on the date specified in such notice (such date not earlier than the date of such notice), Synthetic Securities proposed to be acquired by the Issuer using such documentation shall not constitute Form-Approved Synthetic Securities.

"Forward Expected LIBOR Rate" means with respect to the CP Notes, the forward expected London interbank offered three-month rate for U.S. dollar deposits, as calculated by the CP Note Placement Agent.

"Gross Fixed Rate Excess" means as of any Measurement Date, the product of (i) the greater of zero and the excess, if any, of the Weighted Average Coupon for such Measurement Date over the Minimum Weighted Average Coupon for such Measurement Date and (ii) the Aggregate Principal Amount of all Collateral Assets that are Fixed Rate Assets or Deemed Fixed Collateral Assets (excluding all Defaulted Obligations, Deferred Interest PIK Bonds and Excess Assets that are Floating Rate Assets or Deemed Floating Rate Assets held by the Issuer). For purposes of reporting, any Gross Fixed Rate Excess necessary to satisfy the Weighted Average Spread Test will be subtracted, in percentage form, from the alternative test so as not to double-count the application of such excess.

"Gross Spread Excess" means as of any Measurement Date, the product of (i) the greater of zero and the excess, if any, of the Weighted Average Spread for such Measurement Date over the Minimum Weighted Average Spread for such Measurement Date and (ii) the Aggregate Principal Amount of all Collateral Assets that are Floating Rate Assets or Deemed Floating Collateral Assets (excluding all Defaulted Obligations, Deferred Interest PIK Bonds and Excess Assets that are Fixed Rate Assets or Deemed Fixed Rate Assets held by the Issuer). For purposes of reporting, any Gross Spread Excess necessary to satisfy the Weighted Average Coupon Test will be subtracted, in percentage form, from the alternative test so as not to double-count the application of such excess.

"Haircut Asset" means a Collateral Asset that has received an Actual Rating of at least "A-" by S&P or "A3" by Moody's with respect to less than 100% of the Original Actual Balance of such Collateral Asset. For purposes of calculating the interest received or expected to be received on such Collateral Asset, the interest will not exceed the actual interest due times the ratio of the Principal Balance of the Haircut Asset divided by the Current Actual Balance.

"Hedge Collateral" means, any cash, securities or other collateral delivered and/or pledged by a Hedge Counterparty to or for the benefit of the Issuer, including, without limitation, any up-front payment of cash or delivery of securities made by the Hedge Counterparty to satisfy or secure its payment obligations pursuant to the terms of the related Hedge Agreement.

"Hedge Counterparties" means Interest Rate Swap Counterparties (including any counterparties to Deemed Fixed Asset Hedges or Deemed Floating Asset Hedges), Cashflow Swap Counterparties and Currency Swap Counterparties; AIG Financial Products Corp. shall be the "initial Hedge Counterparty", the "initial Cashflow Swap Counterparty" and the "initial Interest Rate Swap Counterparty".

"Hedge Receipt Amount" means, with respect to the Hedge Agreements and any Payment Date, any hedge receipts, including any other amounts so payable in respect of a termination of any Hedge Agreement.

"Implied Rating" means, in the case of a rating of a Collateral Asset by a Rating Agency, a rating that is determined by reference to any publicly available, fully monitored rating by another rating agency that, by its terms, addresses the full scope of the payment promise of the obligor.

"Insured Securities" means securities (other than RMBS Agency Securities) which have the benefit of a (i) financial guarantee insurance policy or surety bond provided by a monoline or multiline insurer or (ii) corporate guarantee, in such case, insuring or guaranteeing the timely payment of interest (if such security is rated "AA-" or higher) or the ultimate payment of interest and the ultimate payment of principal.

"Interest Only Security" means any security that does not provide for the payment of principal.

"Issue" of a Collateral Asset means any such Collateral Asset issued by the same issuer, having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination) and otherwise being fungible with one another.

"LIBOR CP Note Interest Amount" means, on any Payment Date, with respect to any LIBOR CP Notes (if outstanding), the amount of interest payable in respect of each $1,000 in principal amount of such LIBOR CP Notes (rounded to the nearest cent, with half a cent being rounded upward) on such Payment Date.

"LIBOR CP Note Interest Rate" means the interest rate payable on the LIBOR CP Notes (if outstanding) with respect to each Interest Accrual Period and equal to a per annum rate equal to LIBOR for each Interest Accrual Period (using interpolated LIBOR if such first Interest Accrual Period is less than 25 days).

"LIBOR CP Notes" means CP Notes issued with LIBOR based interest payments payable on Payment Dates and maturing on Payment Dates.

"Liquidation Proceeds" with respect to any Optional Redemption or Tax Redemption include, without duplication, (i) all Sale Proceeds from Collateral Assets sold in connection with such redemption, (ii) the aggregate amount received by the Issuer on or prior to the Business Day immediately preceding the relevant Payment Date from the termination of any Hedge Agreement in connection with such redemption and (iii) cash and Eligible Investments on deposit in the Accounts, to the extent available to redeem the Securities and the CP Notes, including any amounts designated by the Collateral Manager as retained for reinvestment (and also including any payments received under any Hedge Agreements on or prior to the day preceding the Payment Date, in each case as determined by the Collateral Manager.

"Majority" means (a) with respect to any Class or Classes of Notes, more than 50% of the aggregate outstanding principal amount of such Class or Classes of Notes, (b) with respect to the Class E Shares, more than 50% of the outstanding Class E Shares and (c) with respect to the CP Notes, the Put Counterparty (for so long as the Put Agreement is in effect).

"Margin Stock" means any asset that constitutes "margin stock" as defined in Regulation U issued by the Board of Governors of the Federal Reserve System*; provided*, that "Margin Stock" shall not include any equity security received pursuant to an offer by an issuer of a Defaulted Obligation.

"Market Value" means, with respect to the Collateral Assets and/or Eligible Investments, (i) the average of three bona fide bids for such Collateral Asset or Eligible Investment obtained by the Collateral Manager at such time from any three nationally recognized dealers, which dealers are Independent from one another and from the Collateral Manager, or (ii) if the Collateral Manager is unable to obtain three such bids, the lesser of two bona fide bids for such Collateral Asset or Eligible Investment obtained by the Collateral Manager at such time from any two nationally recognized dealers acceptable to the Collateral Manager, which dealers are Independent from one another and from the Collateral Manager, or (iii) in the event the Collateral Manager is unable to obtain two such bids, the price on such date provided to the Collateral Manager by an Independent pricing service reasonably selected by the Collateral Manager, or (iv) in the event the Collateral Manager cannot in good faith determine the market value of such Collateral Asset or Eligible Investment using commercially reasonable efforts to apply the methods specified in clauses (i) through (iii) above, as determined in good faith by the Collateral Manager using commercially reasonable efforts to apply its reasonable business judgment.

"Market Value CDO Security" means any collateralized debt obligation with respect to which the coverage ratios are determined by reference to the market value of the underlying portfolio of investments as prescribed by the applicable rating agencies.

"Measurement Date" means any of the following: (i) the Closing Date; (ii) any date upon which a sale, purchase or substitution of Collateral Assets (giving effect to such sale, purchase or substitution) occurs; (iii) each Determination Date; (iv) any date a Collateral Asset becomes a Defaulted Obligation; and (v) with reasonable notice to the Issuer, any other Business Day that either Rating Agency or the Holders of at least a SuperMajority of any Class of Notes requests be a Measurement Date*; provided* that, if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the first following day that is a Business Day.

"Minimum Class A Adjusted Overcollateralization" means that, as of any Measurement Date, the Net Outstanding Portfolio Collateral Balance on such Measurement Date less the Aggregate Outstanding Amount of the Class A Notes and the CP Notes (after giving effect to amounts on deposit in the CP Principal Reserve Account to Defease CP Notes) is not less than U.S.$40,000,000.

"Minimum Class B Adjusted Overcollateralization" means that, as of any Measurement Date, the Net Outstanding Portfolio Collateral Balance on such Measurement Date less the Aggregate Outstanding Amount of the Class A Notes, the CP Notes (after giving effect to amounts on deposit in the CP Principal Reserve Account to Defease CP Notes) and the Class B Notes is not less than U.S.$30,000,000.

"Monthly Asset Amount" means, with respect to any Payment Date, the Aggregate Principal Amount on the first day of the related Due Period.

"Moody's Expected Loss Rate" means, with respect to any Collateral Asset, the percentage set forth in Appendix G, based upon (i) the lower of the Actual Ratings (without giving effect to any "notched" ratings) assigned to such Collateral Asset by either Moody's or S&P and (ii) the remaining expected average life of such Collateral Asset as determined by the Collateral Manager at least once a year for the purposes of this calculation.

"Moody's Recovery Rate" means, with respect to a Collateral Asset, an amount equal to the percentage for such Collateral Asset set forth in the recovery rate assumptions for Moody's attached as Part II of Appendix E hereto, *provided, however*, that (A) Defaulted Obligations which exceed 2.5% of the Aggregate Principal Amount and have been defaulted for more than one year will be deemed to have a Moody's Recovery Rate of 0%, (B) Defaulted Obligations which exceed 1.00% of the Aggregate Principal Amount and have been defaulted for more than 2 years shall be deemed to have a Moody's Recovery Rate of 0%; and (C) Defaulted Obligations which have been defaulted for more than 3 years shall be deemed to have a Moody's Recovery Rate of 0; *provided further* that the foregoing limits on the percentage of the Aggregate Principal Amount which may consist of Defaulted Obligations, shall not include any Haircut Assets that are Defaulted Obligations and which are current in interest payments due on the related Principal Balance of the Haircut Asset assuming a full interest payment on the underlying Collateral Asset.

"Mortgage-Backed Securities" means any Residential Mortgage-Backed Securities or Commercial Mortgage-Backed Securities.

"Necessary Fixed Crossover Amount" means an amount equal to (x) if (i) the sum of (a) a number obtained by summing the products obtained by multiplying (1) the Current Interest Rate on each Collateral Asset that is a Fixed Rate Asset or Deemed Fixed Collateral Asset (excluding all Defaulted Obligations, Deferred Interest PIK Bonds and Interest Only Securities) by (2) the Principal Balance of each such Collateral Asset *plus* (b) the number obtained by summing the payment in such period applicable to any interest rate cap and the annualized Applicable Amount for Interest Only Securities divided by (ii) the aggregate Principal Balance of all Collateral Assets that are Fixed Rate Assets or Deemed Fixed Collateral Assets (excluding Defaulted Obligations, Deferred Interest PIK Bonds, Interest Only Securities and Excess Assets), is less than the Minimum Weighted Average Coupon for such Measurement Date, the lesser of (I) the Gross Spread Excess, if any, as of such Measurement Date and (II) an amount, if added to clauses (a) and (b) and then divided by (ii) would equal the Minimum Weighted Average Coupon, or (y) otherwise, zero.

"Necessary Spread Crossover Amount" means an amount equal to (x) if (a) a number obtained by summing the products obtained by multiplying (1) the Spread on each Collateral Asset that is a Floating Rate Asset or a Deemed Floating Collateral Asset (other than a Defaulted Obligation and a Deferred Interest PIK Bond) as of such date by (2) the Principal Balance of each such Collateral Asset divided by (b) the aggregate Principal Balance of all Collateral Assets that are Floating Rate Assets or Deemed Floating Collateral Assets (excluding Defaulted Obligations and Deferred Interest PIK Bonds), is less than the Minimum Weighted Average Spread for such Measurement Date, the lesser of (i) the Gross Fixed Rate Excess, if any, as of such Measurement Date and (ii) an amount, if added to clause (a) and then divided by (b) would equal the Minimum Weighted Average Spread, or (y) otherwise, zero.

"Net Outstanding Portfolio Collateral Balance" means, on any Measurement Date, an amount equal to (i) the aggregate Principal Balance on such Measurement Date of all Collateral Assets, *plus* (ii), the aggregate Principal Balance of all Principal Proceeds held as cash and Eligible Investments purchased with Principal Proceeds, *plus* accrued and unpaid interest purchased with Principal Proceeds, *minus* (iii) the aggregate Principal Balance on such Measurement Date of all Collateral Assets that are (A) Defaulted Obligations, (B) Deferred Interest PIK Bonds, (C) Double B Rated Assets, (D) Single B Rated Assets and (E) Triple C Rated Assets, *plus* (iv) the Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds, the Double B Calculation Amount, the Single B Calculation Amount and the Triple C Calculation Amount, *minus* (v) 25% of the Principal Balance of all Collateral Assets that are not Defaulted Obligations, Deferred Interest PIK Bonds, Double B Rated Assets, Single B Rated Assets or Triple C Rated Assets that are expected to be paid after the Stated Maturity of the Class B Notes, *minus* (vi) any appraisal reductions applicable to any class of CMBS (other than any CMBS which are Defaulted Obligations) held by the Issuer to the extent such appraisal reduction is intended to reduce the interest payable to such Collateral Asset and only in proportion to such interest reduction *minus* (vii) any portion of the Principal Balance of a Collateral Asset which is comprised of principal carryforward amounts, *minus* (viii) the greater of (x) zero and (y) the product of (i) the outstanding

principal amount of any Non-U.S. Dollar Denominated Asset less the notional balance of the applicable Currency Swap Agreement for such Non-U.S. Dollar Denominated Asset and (ii) the mark-to-market value, as reasonably determined by the Collateral Manager (to the Issuer, expressed in a positive or negative term) of the related Currency Swap Agreement divided by the notional balance of the Currency Swap Agreement. If a Currency Swap Agreement has terminated or matured it shall be assumed that for purposes of calculating the amount described in clause (viii)(y)(ii) hereof, that a currency swap agreement exists with the same terms as the original currency swap agreement and that such assumed currency swap agreement has a notional balance equal to the notional balance of the related Non-U.S. Dollar Denominated Assets and the same remaining expected amortization and maturity of such Non-U.S. Dollar Denominated Assets at the time of calculation. For purposes of calculating the Net Outstanding Portfolio Collateral Balance, the allocation of Collateral Assets that are equity securities or Interest Only Securities shall be zero.

"Non-U.S. Dollar Denominated Asset" means a Collateral Asset payable in British Sterling, Canadian Dollars, Euros or Japanese Yen.

"Non-U.S. Securities" means securities that (a) represent obligations outside of the United States or (b) are issued outside of the United States by issuers other than issuers organized under the laws of a commonly used domicile for a structured product transaction; and (c) are obligations of, or issued out of, a G7 country.

"Note Registrar" means JPMorgan Chase Bank, appointed as registrar for the Notes and the CP Notes under the Indenture, including any successors thereto appointed under the terms thereof.

"Notional Amount" means an amount equal to $945,000,000, *minus* the aggregate original principal amount of all Class A-1LT-b Notes purchased by the Put Counterparty since the Closing Date, *minus* the sum of all amounts deposited to the CP Principal Reserve Account since the Closing Date.

"Offer" means, with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of its Underlying Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any of its Underlying Instruments.

"Optional Redemption Price" means (i) with respect to the Class A-1LT-a Notes, an amount equal to the outstanding principal amount of the Class A-1LT-a Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-a Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (ii) with respect to the Class A-1LT-b Notes, an amount equal to the outstanding principal amount of the Class A-1LT-b-1 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-1 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) and an amount equal to the outstanding principal amount of the Class A-1LT-b-2 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest), to but excluding the Redemption Date, (iii) with respect to the Class A-2 Notes, an amount equal to the outstanding principal amount of the Class A-2 Notes *plus* accrued and unpaid interest thereon at the Class A-2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (iv) with respect to the Class B Notes, the outstanding principal amount of the Class B Notes *plus* accrued and unpaid interest thereon at the Class B Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (v) with respect to the Class C Notes, the outstanding principal amount of the Class C Notes *plus* accrued and unpaid interest thereon at the Class C Note Interest Rate (including Class C Deferred Interest) to but excluding the Redemption Date, (vi) with respect to the Class D Notes, the outstanding principal amount of the Class D Notes *plus* accrued and unpaid interest thereon at the Class D Note Interest Rate (including Class D Deferred Interest) to but excluding the Redemption Date, (vii) with respect to the CP Notes (other than the LIBOR CP Notes) to be Defeased, the amount payable to the CP

Issuing and Paying Agent for payment to the Holders thereof on the applicable date on which such CP Notes mature in accordance with their terms, *plus* with respect to any LIBOR CP Notes to be redeemed and Defeased, the outstanding principal amount of the LIBOR CP Notes and accrued and unpaid interest thereon at the LIBOR CP Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date and (viii) with respect to the Class E Shares, an amount equal to the Rated Stated Amount of the Class E Shares.

"Original Actual Balance" means the outstanding principal balance of any Collateral Asset at the time of purchase by the Issuer (without application of any haircut or reduction in balance) less any capitalized or deferred interest included in such balance.

"Original Haircut" equals 100% *minus* the highest percentage of the Original Actual Balance that was rated or shadow rated by either Rating Agency.

"Original Issuance Amount" means, with respect to any Collateral Asset, the principal amount of such Collateral Asset together with the principal amount of all other classes or tranches of obligations issued or incurred by the issuer as part of the initial issuance of such Collateral Asset (or authorized for issuance if such Collateral Asset is issued under a shelf registration statement or medium-term note program).

"Payment Account" means a segregated trust account, designated as the "Payment Account," established pursuant to the Indenture with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties and which may be divided into subaccounts for administrative purposes.

"Permitted Offer" means an offer (i) pursuant to the terms of which the offeror offers to acquire a debt obligation (including a Collateral Asset) in exchange for consideration consisting solely of cash in an amount equal to or greater than the full face amount of such debt obligation *plus* any accrued and unpaid interest and (ii) as to which the Collateral Manager has determined in its reasonable business judgment that the offeror has sufficient access to financing to consummate the offer.

"PIK Bond" means a CDO Security satisfying the Eligibility Criteria on which the deferral of interest does not constitute an event of default pursuant to the terms of the related Underlying Instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other Underlying Instruments).

"Principal Balance" means, with respect to any Collateral Asset or Eligible Investment, as of any date of determination, the outstanding principal amount of such Collateral Asset or Eligible Investment; subject to the following exceptions: (i) the Principal Balance of a Synthetic Security shall be the amount specified as such in the Synthetic Security; (ii) the Principal Balance of a Collateral Asset received upon acceptance of an Offer to exchange a Collateral Asset for such Collateral Asset shall be deemed to be the percentage of the outstanding principal amount equal to the lesser of (a) the amount equal to the Applicable Recovery Rate times the outstanding principal amount and (b) if provided, the Market Value of such Collateral Asset, determined according to commercially reasonable standards, until such time, in each case, as Proceeds are first received when due with respect to such Collateral Asset; (iii) the Principal Balance of each Defaulted Obligation and Deferred Interest PIK Bond shall be deemed to be zero except (A) for purposes of (1) the Calculation Amount, the Principal Balance of a Defaulted Obligation or a Deferred Interest PIK Bond shall be its outstanding principal amount without giving effect to any deferred or capitalized interest, (2) any Collateral Profile Tests, the Principal Balance of Defaulted Obligations and Deferred Interest PIK Bonds shall equal the outstanding amount of each such Collateral Asset and (3) any Collateral Quality Tests, the Principal Balance of Defaulted Obligations and Deferred Interest PIK Bonds shall be determined by reference to each such Collateral Quality Test, (B) for purposes of calculating any trustee fees and the Collateral Management Fee, the Principal Balance of each Defaulted Obligation and each Deferred Interest PIK Bond shall equal the Applicable Recovery Rate for each such Defaulted Obligation or Deferred Interest PIK Bond and (C), as otherwise expressly indicated; (iv) as of any date of determination, the Principal Balance of any Step-Up Bonds shall be

deemed to be the accreted value of such Step-Up Bonds on such date of determination (but such amount shall not be greater than par); (v) the Principal Balance of any cash shall be the amount of such cash, but any cash posted by a Securities Lending Counterparty pursuant to a Securities Lending Agreement shall have a Principal Balance of zero; (vi) the Principal Balance of any Collateral Assets and any Eligible Investments in which the Trustee does not have a perfected security interest shall be deemed to be zero (other than Collateral Assets loaned to a Securities Lending Counterparty*; provided* no default has occurred under the related Securities Lending Agreement); (vii) the Principal Balance of any Collateral Asset that is an equity security or an Interest Only Security shall be deemed to be zero; (viii) the Principal Balance of a PIK Bond that is currently deferring interest or has deferred and capitalized interest that is currently unpaid shall be calculated without regard to any such deferred and capitalized interest; (ix) the Principal Balance of any Default Swap Collateral shall be deemed to be zero as long as the related Synthetic Security is outstanding; (x) the Principal Balance of a Non-U.S. Dollar Denominated Asset shall equal the product of the outstanding principal balance of such Collateral Asset and the applicable exchange rate set forth in the applicable Currency Swap Agreement and (xi) the Principal Balance of any Haircut Asset will equal the greater of (a) zero and (b)(i) the Current Actual Balance of such Haircut Asset *minus* (ii) the product of the Original Actual Balance of such Haircut Asset and the Original Haircut.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (i) the net proceeds from the sale of Notes (including any net proceeds from any subsequent issuance of Notes); (ii) all payments of principal on the Collateral Assets and Eligible Investments received in cash by the Issuer during such Due Period, including principal payments received on any Default Swap Collateral if the related Synthetic Security has terminated and the Issuer has no further payment obligations thereunder, prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, (other than payments of principal of Eligible Investments acquired with Proceeds other than Principal Proceeds), Unscheduled Principal Payments and recoveries on Defaulted Obligations; (iii) all payments of interest on the Collateral Assets and Eligible Investments received in cash by the Issuer during such Due Period to the extent such payments constitute proceeds from accrued interest purchased with Principal Proceeds (subject to the proviso below); (iv) Sale Proceeds received by the Issuer during such Due Period (excluding accrued interest on sold or disposed of Collateral Assets or Eligible Investments other than accrued interest that was purchased with Principal Proceeds (subject to the proviso below)) including any proceeds from the sale of any interest rate caps; (v) all interest, amendment, waiver, late payment fees, restructuring and other fees and commissions collected in cash during the related Due Period in respect of Defaulted Obligations; (vi) any proceeds resulting from the termination, replacement, partial reduction or liquidation of any Hedge Agreement, to the extent such proceeds exceed the cost of entering into a replacement Hedge Agreement; (vii) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums (including prepayment premiums on Interest Only Securities unless such Interest Only Security at the time of purchase by the Issuer was collateralized by more than 50 loans), if prior to the end of the Reinvestment Period; (viii) after the payment by the CP Issuing and Paying Agent of all amounts due on CP Notes maturing since the immediately preceding Payment Date, any amounts remaining on deposit in the CP Principal Reserve Account on the related Payment Date, (ix) after the Reinvestment Period, with respect to any Collateral Asset, any prepayment premiums (including prepayment premiums on Interest Only Securities unless such Interest Only Security at the time of purchase by the Issuer was collateralized by more than 50 loans), received but not in excess of the purchase premium paid thereon; and (x) after the Closing Date, the amount equal to the excess, if any, of (a) the par amount of Collateral Assets sold, principal payments and any recoveries on Defaulted Obligations in such Due Period *minus* the discount to par realized from the sale of Credit Risk Obligations and Defaulted Obligations and the discount to par realized on any recoveries on Defaulted Obligations in such Due Period over (b) the Principal Balance of Collateral Assets purchased in such Due Period and Eligible Investments acquired with Principal Proceeds in such Due Period which remain outstanding on the related Determination Date for such Due Period (*provided, however*, that the excess of (A) the sum of (i) the excess of the aggregate for all prior Payment Dates of the amounts described in sub-clause (b) of this clause (x) over $1,500,000,000 and (ii) the excess of the Aggregate Principal Amount on the Closing Date over $1,500,000,000 over (B) the aggregate for all prior Payment Dates of the amounts described in sub-clause (a) of this clause (x) will be applied to reduce the excess of amounts described in sub-clause (a) over amounts described in sub-clause (b) of this clause (x) to, but not less than zero)*; provided,*

however, that, subject to the succeeding sentence, with respect to a Collateral Asset purchased on the Closing Date, the Collateral Manager may elect, in its sole discretion, to exclude from Principal Proceeds all or any portion of interest received with respect to such Collateral Asset (whether as an interest payment actually received by the Issuer or as a portion of Sale Proceeds representing accrued but unpaid interest that would otherwise be included in Principal Proceeds). For avoidance of doubt, with respect to a Collateral Asset, Principal Proceeds (i) will include (a) the interest payment actually received on the first payment date of such Collateral Asset occurring after the date of acquisition by the Issuer, but only to the extent such interest payment represents accrued interest outstanding on such Collateral Asset at the time it was acquired, and (b) if such Collateral Asset is sold prior to the first payment date of such Collateral Asset occurring after the date of acquisition by the Issuer, that portion of the Sale Proceeds representing compensation to the Issuer for accrued but unpaid interest on such sold Collateral Asset, but only to the extent that such amount represents accrued interest outstanding on such Collateral Asset at the time it was acquired by the Issuer; and (ii) will not include (a) any interest payment actually received with respect to such Collateral Asset on any payment date of such Collateral Asset other than the first payment date of such Collateral Asset occurring after the date of acquisition by the Issuer, and (b) if such Collateral Asset is sold after the first payment date of such Collateral Asset occurring after the date of acquisition by the Issuer, any portion of the Sale Proceeds representing compensation to the Issuer for accrued but unpaid interest.

"Proceeds" means, with respect to any Due Period, without duplication, all amounts received by the Trustee with respect to the Collateral Assets (excluding amounts received on any related Synthetic Security for so long as the related Synthetic Security remains outstanding unless otherwise provided in the related Synthetic Security and excluding any payments of interest on Collateral Assets subject to the Cash Flow Swap Agreement), all amounts received as amendment, waiver, late payment fees and commissions collected during the Due Period on Collateral Assets, all amounts received with respect to Eligible Investments in the Accounts, any amounts to be released or withdrawn on the related Payment Date from the Expense Reserve Account and all amounts received under any Hedge Agreements relating to the Due Period, including Principal Proceeds.

"Proposed Portfolio" means the portfolio (measured by Principal Balance) of Collateral Assets and Principal Proceeds held as cash and Eligible Investments purchased with Principal Proceeds, on any Measurement Date, resulting from the sale, maturity or other disposition of a Collateral Asset or a proposed acquisition of a Collateral Asset, as the case may be.

"Put Collateral Account" means any cash, securities or other collateral delivered and/or pledged by the Put Counterparty to or for the benefit of the Issuer.

"Put Counterparty Default" means the occurrence of any of the following events:

(i) the Put Counterparty fails to make a payment required under the Put Agreement in accordance with its terms (beyond any applicable grace or notice periods);

(ii) the Put Counterparty (a) files any petition or commences any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (b) makes a general assignment for the benefit of its creditors or (c) has an order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable; or

(iii) a court of competent jurisdiction or other competent regulatory authority enters a final and nonappealable order, judgment or decree (a) appointing a custodian, trustee, agent or receiver for the Put Counterparty or for all or any material portion of its property or (b) authorizing the taking of possession by a custodian, trustee, agent or receiver of the Put Counterparty (or the taking of possession of all or any material portion of the property of the Put Counterparty).

"Put Premium" means, with respect to the CP Notes, an amount equal to the product of the Put Premium Rate applicable to the CP Notes and the aggregate outstanding principal amount of the CP Notes, calculated on the basis of actual days elapsed in a year of 360 days.

"Put Premium Rate" means, with respect to the CP Notes, 0.20% per annum to and including September 2009 Payment Date and 0.24% per annum thereafter.

"Qualifying Foreign Country" means Australia, Canada, France, Germany, Ireland, New Zealand, Sweden, Switzerland or the United Kingdom, so long as the unguaranteed, unsecured and otherwise unsupported long term U.S. Dollar-denominated sovereign debt obligations of such country have Actual Ratings assigned to it equal to or better than "Aa2" by Moody's and "AA-" by S&P.

"Qualifying Foreign Obligor" means a corporation, partnership, limited liability company or other entity organized in a Qualifying Foreign Country; *provided, however*, that issuers of Structured Finance Obligations that are special purpose vehicles or similar bankruptcy remote issuance vehicles relying solely on revenues originated in the United States or in Qualifying Foreign Countries and which are organized in the Cayman Islands, Bermuda, Luxembourg, Ireland, the British Virgin Islands, the Netherlands Antilles, the Channel Islands or any other commonly used jurisdiction for structured product transactions, *provided* that such other jurisdiction has satisfied the Rating Agency Condition (in each such case, so long as such jurisdiction imposes no or nominal taxes on the income of entities organized therein) will be considered to be Qualifying Foreign Obligors.

"Rated Stated Amount" means, as of any date of determination, the rated stated amount of the Class E Shares of $18,000,000 on the Closing Date, as reduced by all dividends on the Class E Shares on each Payment Date.

"Rating Agency Condition" means, with respect to any action taken or to be taken under the Transaction Documents, a condition that is satisfied when one or both Rating Agencies, as applicable, has confirmed in writing to the Issuer and the Collateral Manager that such action will not result in the immediate withdrawal, reduction or other adverse action with respect to any then current long term rating (including any private or confidential rating) of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes by such Rating Agency and will not result in the immediate withdrawal or reduction by more than two subcategories of the then-current long-term rating (if still outstanding) of the Class E Shares. As specified in the Transaction Documents, the Rating Agency Condition may apply only with respect to a particular Rating Agency, and Holders of a Class of Notes may waive satisfaction of the Rating Agency Condition with respect to their Class of Securities. Unless otherwise specified, if a provision requires satisfaction of the Rating Agency Condition, it shall be presumed that such Rating Agency Condition must be satisfied with regard to both Rating Agencies.

"Reference Obligation" means a Residential Mortgage Backed Security, Commercial Mortgage Backed Security, CDO Security, REIT Debt Security, Asset Backed Security or Insured Security upon which a Synthetic Security is based and that satisfies the criteria set forth in the definition of Synthetic Security.

"Reference Obligor" means the obligor on a Reference Obligation.

"Registered" means, with respect to any debt obligation or debt security, a debt obligation or debt security that is issued after July 18, 1984, and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder.

"Reinvestment Period" means the period from the Closing Date and ending on the first to occur of (i) the end of the Due Period related to the Payment Date in September 2009, (ii) the occurrence of an Event of Default resulting in acceleration of the Notes and the LIBOR CP Notes, (iii) the Payment Date immediately following the date on which the Collateral Manager notifies the Trustee in writing that it has

determined that investments in additional Collateral Assets within the foreseeable future would either be impractical or not beneficial and (iv) 120 days after resignation or removal of the Collateral Manager if no successor Collateral Manager has been approved during that period.

"REIT Debt Security" means a security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision).

"REIT Industrial Security" means a REIT Debt Security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision) that invest primarily in industrial commercial properties.

"REIT Multi-family Security" means a REIT Debt Security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision) that invest primarily in multi-family residential properties.

"REIT Office Security" means a REIT Debt Security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision) that invest primarily in office commercial properties.

"REIT Other Security" means a REIT Other Security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision) that invest primarily in securities other than REIT Industrial Securities, REIT Multi-family Securities, REIT Office Securities and REIT Retail Securities.

"REIT Retail Security" means a REIT Debt Security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision) that invest primarily in retail commercial properties.

"Residential Mortgage-Backed Securities" or "RMBS Securities" means securities that represent interests in pools of residential mortgage loans secured by 1- to 4-family residential mortgage loans and shall include, without limitation, RMBS Residential A Mortgage Securities, RMBS Residential B/C Mortgage Securities, RMBS Manufactured Housing Loan Securities, RMBS Home Equity Loan Securities and RMBS Agency Securities or any other securities within an Approved Subcategory of RMBS Securities.

"RMBS Agency Security" means a security issued or fully and unconditionally guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or the Government National Mortgage Association.

"RMBS Home Equity Loan Securities" means Residential Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Mortgage-Backed Securities) on the cash flow from balances (including revolving balances) outstanding under lines of credit secured by a first and/or subordinate lien on residential real estate (1- to 4-family properties), the proceeds of which lines of credit are not used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (i) the balances have standardized payment terms and require minimum monthly payments; (ii) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (iii) the repayment of such balances may be based on a fixed scheduled payment or, alternatively, may not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; and (iv) the combined loan-to-value ratios are higher than customary in the primary mortgage markets.

"RMBS Manufactured Housing Loan Securities" means Residential Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Mortgage-Backed Securities) on the cash flow from manufactured housing (also known as mobile homes and prefabricated homes) installment sales contracts and installment loan agreements, generally having the following characteristics: (i) the contracts and loan agreements have varying, but typically lengthy contractual maturities; (ii) the contracts and loan agreements are secured by the manufactured homes and, in certain cases, by mortgages and/or deeds of trust on the real estate to which the manufactured homes are deemed permanently affixed; (iii) the contracts and/or loans are obligations of a large number of obligors and accordingly represent a relatively diversified pool of obligor credit risk; (iv) repayment thereof can vary substantially from the contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (v) in some cases, obligations are fully or partially guaranteed by a governmental agency or instrumentality.

"RMBS Residential A Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Residential B/C Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Mortgage-Backed Securities) on the cash flow from residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (1- to 4-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (i) the mortgage loans have generally been underwritten to the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association (without regard to the size of the loan); (ii) the mortgage loans have standardized payment terms and require minimum monthly payments; (iii) the mortgage loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (iv) the repayment of such mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"RMBS Residential B/C Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Residential A Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Mortgage-Backed Securities) on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (1- to 4-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (i) the mortgage loans have generally not been underwritten to the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association (without regard to the size of the loan); (ii) the mortgage loans have standardized payment terms and require minimum monthly payments; (iii) the mortgage loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (iv) the repayment of such mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"S&P Recovery Rate" means, with respect to a Collateral Asset on any Measurement Date, an amount equal to the percentage for such Collateral Asset set forth in the S&P Recovery Rate Matrix attached as Part I of Appendix E hereto, in (x) the applicable table set forth therein and (y) the row in such table opposite the S&P Rating (determined with respect to such Collateral Asset on the date of acquisition of such Collateral Asset by the Issuer).

"Sale Proceeds" means all amounts representing Proceeds (including accrued interest) from the sale or other disposition of any Collateral Asset or Eligible Investment received during such Due Period (other than proceeds from the sale or other disposition of any Defaulted Obligation), net of any reasonable amounts expended by the Collateral Manager or the Trustee in connection with such sale or other disposition.

"Servicer" means, with respect to any CMBS Security, RMBS Security or ABS Security, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for monitoring and otherwise administering the cashflows from which payments to investors in such Collateral Assets are made. To the degree that multiple entities are a party to this responsibility for a given Collateral Asset, the Servicer will be deemed to be the entity most directly involved in maximizing the cashflow of the assets through the management and resolution of delinquent and defaulted assets.

"Spread" means, with respect to a Collateral Asset that is a Floating Rate Asset or a Deemed Floating Collateral Asset, as of any Measurement Date, any of (i) if such security is a LIBOR based (but not limited to one-month LIBOR) Floating Rate Asset, the stated margin at which interest accrues on such Floating Rate Asset, (ii) if such security is a Floating Rate Asset that bears interest based on a non-LIBOR based floating rate index, the stated spread shall be deemed to be the greater of (a) zero and (b) the then-current base rate applicable to such Floating Rate Asset *plus* the rate at which such Floating Rate Asset pays interest in excess of such base rate *minus* LIBOR for the applicable period, or (iii) if such security is a Deemed Floating Collateral Asset, the Weighted Average Deemed Floating Rate *minus* the Weighted Average Fixed Payment Rate.

"Statistical Loss Amount" means, as of any Measurement Date, the sum of, for each Collateral Asset, the product of (i) the Principal Balance of such Collateral Asset and (ii) the Moody Expected Loss Rate for such Collateral Asset. For purposes of the calculation of the Statistical Loss Amount on any Measurement Date, Defaulted Obligations, Double B Rated Assets, Single B Rated Assets and Triple C Rated Assets and for any Collateral Asset expected to be paid in full after the September 2039 Payment Date, the principal amount thereof expected to be paid after such September 2039 Payment Date, shall be excluded.

"Step-Down Bond" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time*; provided* that a Step-Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of calculation. In calculating any Collateral Quality Test defined herein by reference to the spread (in the case of a floating rate Step-Down Bond) or coupon (in the case of a fixed rate Step-Down Bond) of a Step-Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step-Down Bond on or after such date. A Step-Down Bond will be treated as a zero-coupon bond once and if it declines to a zero interest rate.

"Step-Up Bond" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time*; provided* that a Step-Up Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of calculation. In calculating any Collateral Quality Test defined herein by reference to the spread (in the case of a floating rate Step-Up Bond) or coupon (in the case of a fixed rate Step-Up Bond) of a Step-Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash and in effect on such date. A Step-Up Bond will be treated as a zero-coupon bond until such time as it has a positive interest rate and will be carried at accreted value until the final stepped-up rate is in effect.

"Structured Corporate Security" means a security that represents the debt of a corporate obligor through the creation of a trust and the pledge of specific corporate assets.

"Structured Finance Security" means any security that is an asset-backed security, mortgage-backed security, enhanced equipment trust certificate, collateralized bond obligation, collateralized loan obligation or similar instrument.

"Subcategory" means, with respect to a Collateral Asset, the classification of a Collateral Asset within a Category as a specific type of Commercial Mortgage-Backed Security, Residential Mortgage-Backed Security and CDO Security and including any Approved Subcategories.

"SuperMajority" means (a) with respect to the Class A Notes, the Class B Notes and the Put Counterparty (for so long as the Put Agreement is in effect), more than 66-2/3% of the aggregate outstanding principal amount of such Class or Classes of Notes with the Put Counterparty voting in the amount of the then outstanding aggregate face amount of the CP Notes, such Notes and the Put Counterparty voting as a single class, (b) with respect to the Class C Notes and the Class D Notes, more than 66-2/3% of the aggregate outstanding principal amount of such Class or Classes of Notes, voting as a single class, and (c) with respect to the Class E Shares, more than 66-2/3% of the outstanding Class E Shares.

"Swap Balance" has the meaning set forth in the Cashflow Swap Agreement.

"Synthetic Security" means any derivative financial instrument with respect to a debt instrument, whether in the form of a swap transaction, structured bond investment or otherwise, purchased, or entered into, by the Issuer with or from a Synthetic Security Counterparty which investment, unless the Rating Agency Condition is satisfied in connection with such investment or constituting a Form-Approved Synthetic Security, contains equivalent probability of default, recovery upon default (or a specific percentage thereof) and expected loss characteristics as those of the related Reference Obligation (without taking account of such considerations as they relate to the Synthetic Security Counterparty), but which will contain a maturity, interest rate and other non-credit characteristics which may be different than the Reference Obligation to which the credit risk of the Synthetic Security relates*; provided*, that the Issuer shall at no time during any taxable year of the Issuer hold a Synthetic Security which (1) is not either (a) treated as debt for U.S. federal income tax purposes or (b) a security (as defined in Section 2(a)(36) of the Investment Company Act) other than any security which represents an interest in an entity treated as a grantor trust or a partnership for U.S. federal income tax purposes, unless less than 10% of the gross income of the Issuer for such taxable year will be derived from Synthetic Securities not described in (a) or (b) or (2) is treated as insurance or as a financial guarantee for tax or regulatory purposes, where the Issuer is the seller of insurance or a financial guarantor, as the case may be, unless (in the case of (1) or (2)) the Issuer has obtained an opinion or advice of counsel to the effect that the acquisition, disposition or ownership by the Issuer of such Synthetic Security will not cause the Issuer to be treated as engaged in a United States trade or business or subject to United States income tax on a net basis*; provided*, that (a) such Synthetic Security shall provide that no Reference Obligation or other Deliverable Obligation may be delivered to the Issuer in settlement of the Synthetic Security if delivery thereof to the Issuer or transfer thereof by the Issuer to a third party would require or cause the Issuer to assume, or subject the Issuer to, any obligation or liability (other than immaterial, nonpayment obligations) and (b) each Synthetic Security contains appropriate limited recourse and non-petition provisions (to the extent that the Issuer has contractual payment or other obligations to the Synthetic Security Counterparty) equivalent (*mutatis mutandis*) to those contained in the Indenture*; provided, further*, that, if the Synthetic Security is not a Form-Approved Synthetic Security, the Rating Agency Condition shall have been satisfied.

"Synthetic Security Counterparty" means an entity required to make payments on a Synthetic Security pursuant to the terms of such Synthetic Security or any guarantee thereof to the extent that a Reference Obligor makes payments on a related Reference Obligation, (i) which entity, or the long term senior unsecured debt of such entity, shall meet the Synthetic Security Counterparty Required Ratings*; provided however*, that for purposes of determining the rating of a Synthetic Security Counterparty, a Synthetic Security Counterparty that is placed on "credit watch" with negative implications by Moody's or S&P shall be deemed to have a rating one notch below its then-current rating and if such Synthetic

Security Counterparty is placed on "credit watch" with positive implications such Synthetic Security Counterparty shall be deemed to have a rating one notch above its then-current rating and (ii) with respect to which the Rating Agency Condition has been satisfied.

"Tax Event" means (i) the adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in withholding tax payments representing in excess of 3% of the aggregate interest due and payable on the Collateral Assets during the Due Period in which such event occurs as a result of the imposition of U.S. or other withholding tax with respect to which the obligors are not required to make gross-up payments that cover the full amount of such withholding taxes on an after-tax basis or (ii) the adoption of, or change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in taxation of the Issuer's net income in an amount equal to 3% or more of the net income of the Issuer during any Due Period in which such event occurs.

"Tax Redemption Price" means (i) with respect to the Class A-1LT-a Notes, an amount equal to the outstanding principal amount of the Class A-1LT-a Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-a Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (ii) with respect to the Class A-1LT-b Notes, an amount equal to the outstanding principal amount of the Class A-1LT-b-1 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-1 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) and an amount equal to the outstanding principal amount of the Class A-1LT-b-2 Notes *plus* accrued and unpaid interest thereon at the Class A-1LT-b-2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest), to but excluding the Redemption Date, (iii) with respect to the Class A 2 Notes, an amount equal to the outstanding principal amount of the Class A 2 Notes *plus* accrued and unpaid interest thereon at the Class A 2 Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (iv) with respect to the Class B Notes, an amount equal to the outstanding principal amount of the Class B Notes *plus* accrued and unpaid interest thereon at the Class B Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date, (v) with respect to the Class C Notes, the outstanding principal amount of the Class C Notes *plus* accrued and unpaid interest thereon at the Class C Note Interest Rate (including Deferred Interest and Defaulted Interest and interest thereon) but excluding the Redemption Date, (vi) with respect to the Class D Notes, the outstanding principal amount of the Class D Notes *plus* accrued and unpaid interest thereon at the Class D Note Interest Rate (including Deferred Interest and Defaulted Interest and interest thereon) but excluding the Redemption Date, (vii) with respect to the CP Notes (other than the LIBOR CP Notes) to be Defeased, the amount payable to the CP Issuing and Paying Agent for payment to the Holders thereof on the applicable maturity date on which such CP Notes mature in accordance with their terms, *plus* with respect to any LIBOR CP Notes to be redeemed and Defeased, the outstanding principal amount of the LIBOR CP Notes and accrued and unpaid interest thereon at the LIBOR CP Note Interest Rate (including Defaulted Interest and interest on Defaulted Interest) to but excluding the Redemption Date and (viii) with respect to the Class E Shares, an amount equal to the Rated Stated Amount of the Class E Shares.

"Transaction Documents" means the Indenture, the Class E Shares Paying and Transfer Agency Agreement, the Collateral Management Agreement, the Hedge Agreements, the Securities Lending Agreements, the Administration Agreement, the CP Issuing and Paying Agency Agreement, the Put Agreement, the CP Note Placement Agreements and the Collateral Administration Agreement.

"Treasury" means the United States Department of the Treasury.

"Triple C Calculation Amount" means the sum of the products of (i) the Principal Balance of each Triple C Rated Asset and (ii) 50%.

"Triple C Rated Asset" mean any Collateral Asset (other than a Defaulted Obligation) with an Actual Rating from S&P of less than "B-" or with an Actual Rating from Moody's of less than "B3".

"Underlying Instruments" means the indenture or other agreement pursuant to which a Collateral Asset or Eligible Investment has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Asset or Eligible Investment or of which holders of such Collateral Asset or Eligible Investment are the beneficiaries.

"Unscheduled Principal Payments" means any proceeds received by the Issuer from a prepayment (in whole but not in part) or redemption (in whole but not in part) by the obligor of a Collateral Asset prior to the stated maturity date of such Collateral Asset.

"Weighted Average Deemed Fixed Rate" means a rate obtained by (i) summing the products obtained by multiplying (a) the Deemed Fixed Rate on the associated swap applicable to each Deemed Fixed Collateral Asset (excluding all Defaulted Obligations and Deferred Interest PIK Bonds) by (b) the Principal Balance of each such Collateral Asset and (ii) dividing such sum by the Aggregate Principal Amount of all Collateral Assets that are Deemed Fixed Collateral Assets (excluding all Defaulted Obligations and Deferred Interest PIK Bonds).

"Weighted Average Deemed Fixed Spread" means a spread obtained by (i) summing the product obtained by multiplying (a) the spread on each underlying Floating Rate Security, with respect to each Collateral Asset that is a Deemed Fixed Collateral Asset (excluding all Defaulted Obligations and Deferred Interest PIK Bonds) by (b) the Principal Balance of each such Collateral Asset and (ii) dividing such sum by the Aggregate Principal Amount of all Collateral Assets that are Deemed Fixed Collateral Assets (excluding all Defaulted Obligations and Deferred Interest PIK Bonds).

"Weighted Average Deemed Floating Rate" means a rate obtained by (i) summing the products obtained by multiplying (a) the current interest rate on each Collateral Asset that is a Deemed Floating Collateral Asset (excluding all Defaulted Obligations and Deferred Interest PIK Bonds) by (b) the Principal Balance of each such Collateral Asset and (ii) dividing such sum by the Aggregate Principal Amount of all Collateral Assets that are Deemed Floating Collateral Assets (excluding all Defaulted Obligations and Deferred Interest PIK Bonds).

"Weighted Average Fixed Payment Rate" means a rate obtained by (i) summing the products obtained by multiplying (a) the Fixed Payment Rate on the associated swap applicable to each Deemed Floating Collateral Asset (excluding all Defaulted Obligations and Deferred Interest PIK Bonds) by (b) the Principal Balance of each such Collateral Asset and (ii) dividing such sum by the Aggregate Principal Amount of all Collateral Assets that are Deemed Floating Collateral Assets (excluding all Defaulted Obligations and Deferred Interest PIK Bonds).

"Weighted Average Life" means as of any Measurement Date for any Collateral Asset the number obtained by (i) for such Collateral Asset (other than Defaulted Obligations and Deferred Interest PIK Bonds), multiplying each expected principal payment by the number of years (rounded to the nearest hundredth) from the Measurement Date until such expected principal payment (including any payment of deferred or capitalized interest) is due; (ii) summing the product calculated pursuant to clause (i) for such Collateral Asset; and (iii) dividing the sum calculated pursuant to clause (ii) by the sum of all principal payments (including capitalized interest) scheduled to be received on such Collateral Asset on and after such Measurement Date*; provided, however*, the Collateral Manager shall use prepayment assumptions and calculate the Weighted Average Life of a Collateral Asset based upon assumptions deemed reasonable in its judgment based on market conditions at the time of such calculation.

APPENDIX B

Calculation of Moody's Diversity Score

The "Diversity Score" means a single number that indicates collateral concentration in terms of both issuer and industry concentration. The Diversity Score will be calculated for each Synthetic Security assuming that the Reference Obligor with respect to such Synthetic Security is the obligor of such Synthetic Security for purposes of calculating the Diversity Score. For purposes of calculating the Moody's Diversity Test, (i) a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Reference Obligation and (ii) Deferred Interest PIK Bonds, Defaulted Obligations and Interest Only Securities shall be disregarded.

To analyze collateral assets from sectors with correlated default risk, Moody's has developed an alternative Diversity Score method. The derivation of the alternative Diversity Score is based on matching the mean and the standard deviation of the loss distribution associated with the actual portfolio. Moody's alternative Diversity Score method can be found in Appendix II of *Moody's Approach to Rating Multisector CDOs*, September 15, 2000. The diversity score methodology and correlation coefficient's may be updated from time to time by Moody's as demonstrated by a published report distributed by Moody's and applied across all collateralized debt obligation transactions. The formula currently used to calculate the Diversity Score under this alternative methodology is set forth below.

$$D = \frac{\left(\sum_{i=1}^{n} PiFi\right)\left(\sum_{i=1}^{\mathrm{n}} \mathrm{QiFi}\right)}{\sum_{i=1}^{n}\sum_{j=1}^{n} C\,ij\ \sqrt{PiQiPjQjFiFj}}$$

First, Moody's assumes that the actual portfolio consists of *n* bonds; bond *i* has a face value *F*, and a default probability *Pi*, that is implied by the rating and average life of the bond. The probability of survival for bond *i* is *Qi*, which equals *1- Pi*. In addition, the correlation coefficient of default between bond *i* and *j* is *Cij*. For purposes of the calculation Pi is the loss amount of a Collateral Asset based on its Moody's Rating and its average life as set forth in the Indenture corresponding to the Moody's Actual or Implied Rating and tenor at the Measurement Date divided by the severity, which is equal to one *minus* the recovery rate, and *Cij* is the default correlation, as provided by Moody's to the Collateral Manager and the Trustee on the Closing Date. Consequently, the actual collateral pool can be replicated by D homogeneous securities with independent default risk.

Average Face Value = $F = \left(\sum_{i=1}^{n} F_i\right) / D$

Average Default Probability = $P = \left(\sum_{i=1}^{n} P_i F_i\right) / \left(\sum_{i=1}^{n} F_i\right)$

To calculate the alternative Diversity Score, portfolio parameters need to be input, including the rating profile, the par amount, the maturity profile and the default correlation assumptions.

In addition, Moody's assumes that the default correlation is associated with the credit quality of the collateral. For example, the default correlation among investment grade mortgage-backed securities is lower than the default correlation among below investment grade mortgage-backed securities. Finally, the cross-correlation of defaults among various types of asset-backed securities and mortgage-backed securities plays an important role as well. In addition:

(A) if a Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) has a long term senior unsecured debt rating of "Aa3" or higher by Moody's and the aggregate principal balance of all underlying collateral serviced by such Servicer (together with the Aggregate Principal Balance of any underlying collateral which constitute Synthetic Securities the Reference Obligations of which are serviced by such Servicer) is (i) more than 5% but less than 12.5% of the Net Outstanding Portfolio Collateral Balance, the default correlation between collateral serviced by such servicer shall be multiplied by 1.0, (ii) 12.5% or more but less than 25% of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.1 and (iii) 25% or more of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.2;

(B) if a Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) has a long term senior unsecured debt rating of "A1", "A2", or "A3" by Moody's and the Aggregate Principal Balance of all underlying collateral serviced by such Servicer (together with the Aggregate Principal Balance of any underlying collateral which constitute Synthetic Securities the Reference Obligations of which are serviced by such Servicer) is (i) more than 5% but less than 12.5% of the Net Outstanding Portfolio Collateral Balance, the default correlation between collateral serviced by such servicer shall be multiplied by 1.25, (ii) 12.5% or more but less than 25% of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.25 and (iii) 25% or more of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.3;

(C) if a Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) has a long term senior unsecured debt rating of "Baa1", "Baa2", or "Baa3" by Moody's and the Aggregate Principal Balance of all underlying collateral serviced by such Servicer (together with the Aggregate Principal Balance of any Underlying Assets which constitute Synthetic Securities the Reference Obligations of which are serviced by such Servicer) is (i) more than 5% of the Net Outstanding Portfolio Collateral Balance, the default correlation between collateral serviced by such servicer shall be multiplied by 1.4, (ii) 12.5% or more but less than 25% of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.4 and (iii) 25% or more of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.5; and

(D) if a Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) has a long term senior unsecured debt rating of "Ba1" or below by Moody's or is not rated by Moody's and the Aggregate Principal Balance of all underlying collateral serviced by such Servicer (together with the Aggregate Principal Balance of any Underlying Assets which constitute Synthetic Securities the Reference Obligations of which are serviced by such Servicer) is (i) more than 5% of the Net Outstanding Portfolio Collateral Balance, the default correlation between collateral serviced by such servicer shall be multiplied by 1.5, (ii) 12.5% or more but less than 25% of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 1.75 and (iii) 25% or more of the Net Outstanding Portfolio Collateral Balance, the default correlation shall be multiplied by 2.0.

APPENDIX C

Calculation of Moody's Maximum Rating Distribution and Moody's Rating

The "Moody's Maximum Rating Distribution" on any Measurement Date is the number obtained by dividing (i) the summation of the series of products obtained for any Collateral Asset that is not a Defaulted Obligation by multiplying (a) the Principal Balance on such Measurement Date of each such Collateral Asset by (b) its respective Moody's Rating Factor on such Measurement Date by (ii) the aggregate Principal Balance on such Measurement Date of all Collateral Assets that are not Defaulted Obligations and rounding the result up to the nearest whole number. For purposes of the Moody's Maximum Rating Distribution, the Principal Balance of a Deferred Interest PIK Bond shall be deemed to be equal to its outstanding principal amount without regard to any deferred and capitalized interest.

The "Moody's Rating Factor" relating to any Collateral Asset is the number set forth in the table below opposite the Moody's Rating of such Collateral Asset.

Moody's Rating	Moody's Rating Factor	Moody's Rating	Moody's Rating Factor
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,780
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Moody's Maximum Rating Distribution Test, if a Collateral Asset does not have a Moody's Rating assigned to it at the date of acquisition, the Moody's Rating Factor with respect to such Collateral Asset shall be 10,000 for a period of 90 days from the acquisition of such Collateral Asset. After such 90-day period, if such Collateral Asset is not rated by Moody's and no other security or obligation of the issuer thereof or obligor thereon is rated by Moody's and the Issuer or the Collateral Manager seeks to obtain an estimate of a Moody's Rating Factor, then the Moody's Rating Factor of such Collateral Asset will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Manager.

The following definition of "Moody's Rating" has been provided to the Issuer and capitalized terms used therein with respect to types of securities have the meanings ascribed thereto by Moody's.

(1) if such Collateral Asset has an expressly monitored outstanding rating assigned by Moody's, which rating by its terms addresses the full scope of the payment promise of the obligor of such Collateral Asset (other than with respect to a Haircut Asset), the Moody's Rating shall be such rating, or if such Collateral Asset is not rated by Moody's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody's assign a rating to such Collateral Asset, the Moody's Rating shall be the rating so assigned by Moody's; *provided* that for purposes of this definition, (i) the rating assigned by Moody's to a Collateral Asset placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by one subcategory, (ii) the rating for a CDO Security rated "A3" or lower by Moody's and placed on watch for a possible downgraded by Moody's will be deemed to have been downgraded by two subcategories, (iii) the rating assigned by Moody's to a Collateral Asset placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by one subcategory and (iv) in connection with a rating assigned to a Haircut Asset specifically in response to a request by the Collateral Manager on

behalf of the Issuer, the rating with respect to such portion of the Collateral Asset will be the assigned rating irrespective of any actual, expressly monitored rating which may be otherwise assigned to such Collateral Asset;

(2) (i) if such Collateral Asset is not rated by Moody's but is rated by S&P, then the Moody's Rating of such Collateral Asset may be an Implied Rating determined by subtracting the number of subcategories from the Moody's equivalent rating according to the following table ("notching"):

ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Asset Backed			
Agricultural and Industrial Equipment loans	1	2	3
Aircraft and Auto leases	2	3	4
Arena and Stadium Financing	1	2	3
Auto loan	1	2	3
Boat, Motorcycle, RV, Truck	1	2	3
Computer, Equipment and Small-ticket item leases	1	2	3
Consumer Loans	1	3	4
Credit Card	1	2	3
Cross-border transactions	1	2	3
Entertainment Royalties	1	2	3
Floor Plan	1	2	3
Franchise Loans	1	2	4
Future Receivables	1	1	2
Health Care Receivables	1	2	3
Manufactured Housing	1	2	3
Mutual Fund Fees	1	2	4
Small Business Loans	1	2	3
Stranded Utilities	1	2	3
Structured Settlements	1	2	3
Student Loan	1	2	3
Tax Liens	1	2	3
Trade Receivables	2	3	4
	AAA	**AA+ to BBB-**	**Below BBB-**
Residential Mortgage Related			
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential B&C)	1	2	3

(ii) if such Collateral Asset is not rated by Moody's but is rated by Fitch, then the Moody's Rating of such Collateral Asset may be determined by subtracting the number of subcategories from the Moody's equivalent rating according to the following table:

	AAA	AA+ to BBB-	Below BBB-
Residential Mortgage Related			
Jumbo A	1	2	4
Alt-A or mixed pools	1	3	5
HEL (including Residential B&C)	No notching permitted	No notching permitted	No notching permitted

(iii) if such Collateral Asset is dual-rated Jumbo A or Alt-A, the Moody's Rating shall be the lower of the two ratings as determined in clauses (i) and (ii) above, *plus* one-half of a subcategory;

(iv) if such Collateral Asset is not rated by Moody's but is rated by S&P and Fitch and is a CMBS Security, the Moody's Rating of such Collateral Asset may be determined by subtracting the number of subcategories from the Moody's equivalent rating according to the following table:

	Tranche rated by Fitch and S&P; no tranche in deal rated by Moody's	Tranche rated by Fitch and/or S&P; at least one other tranche in deal rated by Moody's
Commercial Mortgage Backed Securities		
Conduit[1]	2 notches from lower of Fitch/S&P	1.5[2] notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

(v) if such Collateral Asset is a CDO Security, no notching is permitted and the Moody's Rating shall be the rating so assigned by Moody's in connection with the acquisition thereof upon request of the Collateral Manager;

provided, that (1) any ratings by S&P or Fitch used to determined a Moody's Ratings shall (a) address the full return of interest and principal; (b) be for the benefit of multiple investors and remain valid if the Collateral Asset is transferred to subsequent investors; (c) be actually expressly monitored ratings rather than any "credit estimate" or "shadow rating" and (d) be monitored through the life of the Collateral Asset and (2) no notching is permitted based upon a rating by S&P with an "r", "t" or "Pi" subscript and the Moody's Rating shall be the rating so assigned by Moody's in connection with the acquisition thereof upon request of the Collateral Manager; and *provided, further*, that (v) the aggregate Principal Balance of Collateral Assets that may be given a Moody's Rating based on Collateral Assets rated by both S&P and Fitch may not exceed 20% of the Aggregate Principal Amount, (w) the aggregate Principal Balance of Collateral Assets that may be given a Moody's Rating based on Collateral Assets rated by only one of S&P or Fitch may not exceed 10% of the Aggregate Principal Amount, (x) the aggregate Principal Balance of Collateral Assets that may be given a Moody's Rating based on Collateral Assets rated by S&P only may not exceed 7.5% of the Aggregate Principal Amount and the aggregate Principal Balance of Collateral Assets that may be given a Moody's Rating based on Collateral Assets rated by Fitch only may not exceed 7.5% of the Aggregate Principal Amount, (y) only Collateral Assets consisting of RMBS

---

[1] For purposes of the "Moody's Rating", conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral including conduit loans, A notes, large loans, CTLs and any other real estate collateral factored in.

[2] A 1.5 notch haircut implies, for example, that if the S&P/Fitch rating were BBB, then the Moody's Rating would be halfway between the Baa3 and Ba1 rating factors.

Residential A Mortgage Securities may be used to determine a Moody's Rating based on a Fitch rating and such Collateral Assets are subject to a 7.5% (by par) concentration limit, and (z) Asset-Backed Securities or Mortgage-Backed Securities, other than those listed in this paragraph (2) and any RMBS Agency Securities, shall have the rating assigned by Moody's;

(3) with respect to unconditional and irrevocable corporate guarantees on Asset-Backed Securities or obligations, if such corporate guarantees or obligations are not rated by Moody's but another security or obligation of the guarantor or obligor (an "other security") is rated by Moody's, and no rating has been assigned in accordance with clause (i), the Moody's Rating of such Collateral Asset shall be determined as follows:

(i) if such corporate guarantee or obligation is a senior secured obligation of the guarantor or obligor and the other security is also a senior secured obligation, the Moody's Rating of such Collateral Asset shall be the rating of the other security;

(ii) if such corporate guarantee or obligation is a senior unsecured obligation of the guarantor or obligor and the other security is a senior secured obligation, the Moody's Rating of such Collateral Asset shall be one rating subcategory below the rating of the other security;

(iii) if such corporate guarantee or obligation is a subordinated obligation of the guarantor or obligor and the other security is a senior secured obligation:

(a) rated "Ba3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be three rating subcategories below the rating of the other security; or

(b) rated "B1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories below the rating of the other security;

(iv) if such corporate guarantee or obligation is a senior secured obligation of the guarantor or obligor and the other security is a senior unsecured obligation:

(a) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be the rating of the other security; or

(b) rated "Ba1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security;

(v) if such corporate guarantee or obligation is a senior unsecured obligation of the guarantor or obligor and the other security is also a senior unsecured obligation, the Moody's Rating of such corporate guarantee shall be the rating of the other security;

(vi) if such corporate guarantee or obligation is a subordinated obligation of the guarantor or obligor and the other security is a senior unsecured obligation:

(a) rated "B1" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories below the rating of the other security; or

(b) rated "B2" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory below the rating of the other security;

(vii) if such corporate guarantee or obligation is a senior secured obligation of the guarantor or obligor and the other security is a subordinated obligation:

(a) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security;

(b) rated below "Baa3" but not rated "B3" by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories above the rating of the other security; or

(c) rated "B3" by Moody's, the Moody's Rating of such corporate guarantee shall be "B2";

(viii) if such corporate guarantee or obligation is a senior unsecured obligation of the guarantor or obligor and the other security is a subordinated obligation:

(a) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security; or

(b) rated "Ba1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall also be one rating subcategory above the rating of the other security; or

(ix) if the Collateral Asset is a subordinated obligation of the related guarantor or obligor and the other security is also a subordinated obligation, the Moody's Rating of such corporate guarantee or obligation shall be the rating of the other security;

(4) with respect to corporate obligations or unconditional and irrevocable guarantees issued by U.S., U.K. or Canadian obligors or guarantors or by any other Qualifying Foreign Obligor, if such corporate obligation or guarantee is not rated by Moody's, and no other security or obligation of the guarantor is rated by Moody's, then the Moody's Rating of such corporate obligation or guarantee may be determined using any one of the methods below:

(i) (a) if such corporate obligation or guarantee is rated by S&P, then the Moody's Rating of such corporate obligation or guarantee will be (x) one subcategory below the Moody's equivalent of the rating assigned by S&P if such security is rated "BBB-" or higher by S&P and (y) two subcategories below the Moody's equivalent of the rating assigned by S&P if such security is rated "BB+" or lower by S&P; *provided* that the Aggregate Principal Amount that may be given a rating based on an S&P rating as provided in this subclause (i)(a) may not exceed 10% of the Aggregate Principal Amount; and

(b) if such corporate obligation or guarantee is not rated by S&P but another security or obligation of the guarantor is rated by S&P (a "parallel security"), then the Moody's equivalent of the rating of such parallel security will be determined in accordance with the methodology set forth in subclause (a)(1) above, and the Moody's Rating of such corporate obligation or guarantee will be determined in accordance with the methodology set forth in clause (ii) above (for such purpose treating the parallel security as if it were rated by Moody's at the rating determined pursuant to this subclause (i)(b));

provided, that no notching is permitted under this clause (i) based upon a rating by S&P with an "r", "t" or "Pi" subscript;

(ii) if such corporate obligation or guarantee is not rated by Moody's or S&P, and no other security or obligation of the guarantor is rated by Moody's or S&P, then the Issuer or the Collateral Manager, on behalf of the Issuer, may present such corporate obligation or guarantee to Moody's for an estimate of such Collateral Asset's rating factor, from which its corresponding Moody's rating may be determined, which shall be its Moody's Rating;

(iii) with respect to a corporate obligation or guarantee issued by a U.S. corporation, if (1) neither the guarantor nor any of its affiliates is subject to reorganization or bankruptcy proceedings, (2) no debt securities or obligations of the guarantor are in default, (3) neither the guarantor nor any of its affiliates has defaulted on any debt during the past two years, (4) the guarantor has been in existence for the past five years, (5) the guarantor is current on any cumulative dividends, (6) the fixed-charge ratio for the guarantor exceeds 125% for each of the past two fiscal years and for the most recent quarter, (7) the guarantor had a net profit before tax in the past fiscal year and the most recent quarter and (8) the annual financial statements of the guarantor are unqualified

and certified by a firm of independent accountants of national reputation, and quarterly statements are unaudited but signed by a corporate officer, the Moody's Rating of such corporate obligation or guarantee will be "B3";

(iv) with respect to such corporate obligation or guarantee issued by a non-U.S. guarantor, if (1) neither the guarantor nor any of its affiliates is subject to reorganization or bankruptcy proceedings and (2) no debt security or obligation of the guarantor has been in default during the past two years, the Moody's Rating of such Collateral Asset will be "Caa2"; and

(v) if a debt security or obligation of the related guarantor has been in default during the past two years, the Moody's Rating of such Collateral Asset will be "Ca";

(5) with respect to a Collateral Asset that is an RMBS Agency Security, the Moody's Rating of such Collateral Asset will be the rating assigned by Moody's to the agency which guarantees such RMBS Agency Security; and

(6) if such Collateral Asset is a Synthetic Security, the Moody's Rating of such Synthetic Security shall be the rating assigned thereto by Moody's in connection with the acquisition thereof by the Issuer upon the request of the Issuer or the Collateral Manager; *provided* that the Moody's Rating of any Form-Approved Synthetic Security not rated by S&P or Moody's will be the rating assigned by Moody's to the Reference Obligation.

APPENDIX D

Determination of S&P Rating

The following definition of S&P Rating has been provided to the Issuer by S&P and the asset classes have the meanings ascribed thereto by S&P.

"S&P Rating" of any Collateral Asset will be determined as follows:

(a) (1) if S&P has assigned a rating to such Collateral Asset either publicly or privately (for the benefit of the Collateral Manager and S&P has consented to the disclosure of any such private rating), the S&P Rating shall be the rating assigned thereto by S&P; *provided, however*, that if the rating assigned to such Collateral Asset by S&P is on the then-current credit rating watch list with negative implications, then the rating of such Collateral Asset will be one subcategory below the rating then assigned to such Collateral Asset by S&P and if the rating assigned to such Collateral Asset by S&P is on the then-current credit rating watch list with positive implications, then the rating of such Collateral Asset will be one subcategory above the rating then assigned to such Collateral Asset by S&P;

(2) if such Collateral Asset is not rated by S&P (other than an RMBS Agency Security), then the Issuer or the Collateral Manager on behalf of the Issuer may apply to S&P for a confidential credit estimate, which shall be the S&P Rating of such Collateral Asset; *provided* that pending receipt from S&P of such estimate, such Collateral Asset shall have an S&P Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-"; or

(3) if such Collateral Asset is not rated by S&P and neither the Issuer nor the Collateral Manager obtains an S&P Rating for such Collateral Asset pursuant to subclause (2) above, then the S&P Rating of such Collateral Asset may be implied only by reference to the chart set forth below so long as such referenced rating is a publicly monitored rating; *provided* that if such Collateral Asset is not rated by S&P, and neither the Issuer nor the Collateral Manager obtains an S&P Rating for such Collateral Asset pursuant to this clause (a) then no more than 20% of the Aggregate Principal Amount may imply an S&P Rating pursuant to this clause (a)(3).

Asset classes are eligible for notching if they are not first loss tranches or combination securities. Notwithstanding the foregoing, no Structured Finance Security that is a Non-U.S. Dollar Denominated Asset, no Synthetic Security and no CDO Security the underlying assets of which are CDO Securities shall be eligible for notching unless the Rating Agency Condition with regard to S&P has been satisfied in connection with such treatment. If the security is publicly rated by two agencies, notch down as shown below will be based on the lowest rating. If publicly rated only by one agency, then notch down what is shown below *minus* one additional notch based on the public rating.

	Issued prior to 8/1/01 and the current rating is investment grade	Issued prior to 8/1/01 and the current rating is non investment grade	Issued after 8/1/01 and the current rating is investment grade	Issued after 8/1/01 and the current rating is non investment grade
1. CONSUMER ABS Automobile Loan Receivable Securities Automobile Lease Receivable Securities Car Rental Receivable Securities Credit Card Securities Healthcare Securities Student Loan Securities	-1	-2	-2	-3
2. COMMERCIAL ABS Cargo Securities Equipment Leasing Securities Aircraft Leasing Securities Small Business Loan Securities Restaurant and Food Services Securities Tobacco Litigation Securities	-1	-2	-2	-3
3. Non-RE-REMIC RMBS Manufactured Housing Loan Securities	-1	-2	-2	-3
4. Non-RE-REMIC CMBS CMBS – Conduit CMBS – Credit Tenant Lease CMBS – Large Loan CMBS – Single Borrower CMBS – Single Property	-1	-2	-2	-3
5. CDO/CLO CASH FLOW SECURITIES* Cash Flow CDO - at least 80% High Yield Cash Flow CDO - at least 80% Investment Cash Flow CLO - at least 80% High Yield Cash Flow CLO - at least 80% Investment	-1	-2	-2	-3
6. REITs REIT – Multifamily and Mobile Home Park REIT – Retail REIT – Hospitality REIT – Office REIT – Industrial REIT – Healthcare	-1	-2	-2	-3

	Issued prior to 8/1/01 and the current rating is investment grade	Issued prior to 8/1/01 and the current rating is non investment grade	Issued after 8/1/01 and the current rating is investment grade	Issued after 8/1/01 and the current rating is non investment grade
REIT – Warehouse REIT – Self Storage REIT – Mixed Use				
7. SPECIALTY STRUCTURED Stadium Financings Project Finance Future Flows	-3	-4	-3	-4
8. RESIDENTIAL MORTGAGES Residential "A" Residential "B/C" Home equity loans	-1	-2	-2	-3
9. REAL ESTATE OPERATING COMPANIES	-1	-2	-2	-3

* No notching permitted with respect to CDO Securities issued after 8/1/01.

(b) if such Collateral Asset is a Synthetic Security, Future Flow Security or Project Finance Security the S&P Rating of such Synthetic Security shall be the rating assigned thereto by S&P in connection with the acquisition thereof by the Issuer upon the request of the Issuer or the Collateral Manager.

APPENDIX E

Recovery Rate Assumptions

Part I

Standard and Poor's Recovery Rate Matrix

The following information has been provided to the Issuer by S&P and the asset classes and related capitalized terms have the meanings ascribed thereto by S&P.

A. If the Collateral Asset is the senior-most tranche of securities issued by the issuer of such Collateral Asset*:

	Stress Case Equal to AAA rating	Stress Case Equal to AA Rating	Stress Case Equal to A rating	Stress Case Equal to BBB rating
Collateral Asset Rating at the time of Acquisition				
AAA	80.0%	85.0%	90.0%	90.0%
AA	70.0%	75.0%	85.0%	90.0%
A	60.0%	65.0%	75.0%	85.0%
BBB	50.0%	55.0%	65.0%	75.0%

B. If the Collateral Asset is not the senior-most tranche of securities issued by the issuer of such Collateral Asset*:

	Stress Case Equal to AAA rating	Stress Case Equal to AA Rating	Stress Case Equal to A rating	Stress Case Equal to BBB rating
Collateral Asset Rating at the time of Acquisition				
AAA	65.0%	70.0%	80.0%	85.0%
AA	55.0%	65.0%	75.0%	80.0%
A	40.0%	45.0%	55.0%	65.0%
BBB	30.0%	35.0%	40.0%	45.0%

* If the Collateral Asset is a Project Finance Security, an ABS Future Flow Security, a Synthetic Security or a CDO Security the underlying assets of which are CDO Securities, the recovery rate for such Collateral Asset will be zero until a recovery rate is assigned by S&P and if such Collateral Asset is an Insured Security (other than a monoline insurer as set forth in paragraph D below), the recovery rate will be determined by S&P on a case by case basis. If the Collateral Asset is a REIT Debt Security, the recovery rate will be 40%.

C. If the underlying instruments of the Collateral Assets permit more than 20% of the underlying collateral by principal amount to be non-U.S. assets, the recovery rate will in accordance be as described in clauses (A) and (B) above, as applicable.

D. If the Collateral Asset has its payment obligations guaranteed by a primary monoline insurer, then

(1) If the Collateral Asset has its payment obligations guaranteed by a primary monoline insurer, then the recovery rate is such primary insurer's recovery rate multiplied by (one *minus* the recovery rate of the related Collateral Asset) *plus* the recovery rate of the related Collateral Asset. The recovery rate of the monoline is 44% if the primary insurer is one of the following entities:

Ambac Assurance Corp.
Financial Guaranty Insurance Co.
Financial Security Assurance Inc.
MBIA Insurance Corps.
XL Capital Assurance Inc.

(2) Otherwise, the recovery rate will be assigned by S&P upon the acquisition of such Collateral Asset by the Issuer and upon request by the Collateral Manager.

Part II

Moody's Recovery Rate Assumptions

The Moody's Recovery Rate shall be determined with respect to a Collateral Asset with reference to the percentages set forth below in (x) the table corresponding to the relevant classification of such Collateral Asset, (y) the column in such table setting forth the Moody's Rating of such Collateral Asset as of the date on which such Collateral Asset was originally issued and (z) the row in such table opposite the percentage of the Issue of which such Collateral Asset is a part relative to the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Asset determined on the date on which such Collateral Asset was obtained in accordance with this Part II of Appendix E.

The following information has been provided to the Issuer by Moody's and the capitalized terms used therein and not otherwise defined with respect to types of securities have the meanings ascribed thereto by Moody's.

For Diversified Securities[1], the recovery rate is assumed as follows:

	Rating of a Tranche at Issuance					
Tranche as % of capital structure at issuance	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
greater than 70%	85%	80%	70%	60%	50%	40%
greater than 10% and less than or equal to 70%	75%	70%	60%	50%	40%	30%
less than or equal to 10%	70%	65%	55%	45%	35%	25%

For Residential Mortgage-Backed Securities, the recovery rate is assumed as follows:

	Rating of a Tranche at Issuance					
Tranche as % of capital structure at issuance	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
greater than 70%	85%	80%	65%	55%	45%	30%
greater than 10% and less than or equal to 70%	75%	70%	55%	45%	35%	25%
greater than 5% and less than or equal to 10%	65%	55%	45%	40%	30%	20%
greater than 2% and less than or equal to 5%	55%	45%	40%	35%	25%	15%
less than or equal to 2%	45%	35%	30%	25%	15%	10%

For Undiversified Securities[2], the recovery rate is assumed as follows:

	Rating of a Tranche at Issuance					
Tranche as % of capital structure at issuance	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
greater than 70%	85%	80%	65%	55%	45%	30%
greater than 10% and less than or equal to 70%	75%	70%	55%	45%	35%	25%
greater than 5% and less than or equal to 10%	65%	55%	45%	35%	25%	15%
greater than 2% and less than or equal to 5%	55%	45%	35%	30%	20%	10%
less than or equal to 2%	45%	35%	25%	20%	10%	5%

For Low-Diversity CDOs[3], the recovery rate is assumed as follows:

	Rating of a Tranche at Issuance					
Tranche as % of capital structure at issuance	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
greater than 70%	80%	75%	60%	50%	45%	30%
greater than 10% and less than or equal to 70%	70%	60%	55%	45%	35%	25%
greater than 5% and less than or equal to 10%	60%	50%	45%	35%	25%	15%
greater than 2% and less than or equal to 5%	50%	40%	35%	30%	20%	10%
less than or equal to 2%	30%	25%	20%	15%	7%	4%

For High-Diversity CDOs[4], the recovery rate is assumed as follows:

	Rating of a Tranche at Issuance					
Tranche as % of capital structure at issuance	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
greater than 70%	85%	80%	65%	55%	45%	30%
greater than 10% and less than or equal to 70%	75%	70%	60%	50%	40%	25%
greater than 5% and less than or equal to 10%	65%	55%	50%	40%	30%	20%
greater than 2% and less than or equal to 5%	55%	45%	40%	35%	25%	10%
less than or equal to 2%	45%	35%	30%	25%	10%	5%

Using such recovery rate assumptions, a High-Diversity CDO would have a diversity score of 20 or higher and a Low-Diversity CDO would have a diversity score of less than 20.

The Moody's Recovery Rate for Corporate Securities is 30% for corporate bonds issued by U.S. obligors and for other issuers such amount as determined in consultation with Moody's. The Moody's Recovery Rate for REIT unsecured debt securities is 40% (other than for mortgage and healthcare related REIT debt securities, for which it is 10%).

The Recovery Rate for a Haircut Asset that is shadow rated by Moody's for a balance less than its applicable balance for applying such Recovery Rate will be determined at the time such Haircut Asset receives a shadow rating.

The Recovery Rate for ABS Passenger Airline Enhanced Equipment Trust Certificates will be the greater of (x) 30% and (y) the Recovery Rate Assigned by Moody's.

The Recovery Rate for ABS Future Flow Securities and Project Finance Securities will be 0% until the Rating Agency Condition with respect to Moody's is satisfied.

---

[1] "Diversified Securities" means: (i) ABS Automobile Securities; (ii) ABS Car Rental Receivable Securities; (iii) ABS Credit Card Securities; (iv) ABS Student Loan Securities; and (v) any other type of Collateral Assets that are designated as Diversified Securities after the Closing Date by Moody's and notified to the Trustee and the Collateral Manager.

[2] "Undiversified Securities" means any Commercial Mortgage-Backed Securities and CDO Securities and those Collateral Assets not included in Diversified Securities and any other type of Asset-Backed Securities that are designated as Undiversified Securities after the Closing Date by Moody's and notified to the Trustee and the Collateral Manager.

[3] "Low-Diversity CDOs" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cash flow from a portfolio of commercial and industrial bank loans, asset-backed securities, mortgage-backed securities or corporate debt securities or any combination of the foregoing, generally having the following characteristics: (1) the bank loans and debt securities have varying contractual maturities; (2) the loans and securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of obligor credit risk having a Moody's diversity score of 20 or lower; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual bank loans or debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional bank loans and/or debt securities.

[4] "High-Diversity CDOs" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cash flow from a portfolio of commercial and industrial bank loans, asset-backed securities, mortgage-backed securities or corporate debt securities or synthetic securities or any combination of the foregoing, generally having the following characteristics: (1) the bank loans and debt securities have varying contractual maturities; (2) the loans and securities are obligations of obligors or issuers that represent a relatively diversified pool of obligor credit risk having a Moody's diversity score higher than 20; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual bank loans or debt securities depending on numerous factors specific to the particular issuers or obligors and on whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional bank loans and/or debt securities.

APPENDIX F

Limits For
Securities Lending Counterparties

Long term Senior Unsecured Debt Rating of Securities Lending Counterparties		Individual Securities Lending Counterparty Limit	Aggregate Securities Lending Counterparty Limit
Moody's	**S&P**		
Aaa	AAA	3%	15%
Aa1	AA+	3%	12%
Aa2	AA	2½%	10%
Aa3	AA–	2½%	8%
A1	A+	1%	3%
A2 and P-1	A	1%	2%

APPENDIX G

Calculation of Moody's Expected Loss Rate

Year	Aaa	Aa1	Aa2	Aa3	Al	A2	A3	Baal	Baa2	Baa3
1	0.0000%	0.0003%	0.0007%	0.0017%	0.0032%	0.0060%	0.0214%	0.0495%	0.0935%	0.2310%
2	0.0001%	0.0017%	0.0044%	0.0105%	0.0204%	0.0385%	0.0825%	0.1540%	0.2585%	0.5775%
3	0.0004%	0.0055%	0.0143%	0.0325%	0.0644%	0.1221%	0.1980%	0.3080%	0.4565%	0.9405%
4	0.0010%	0.0116%	0.0259%	0.0556%	0.1040%	0.1898%	0.2970%	0.4565%	0.6600%	1.3090%
5	0.0016%	0.0171%	0.0374%	0.0781%	0.1436%	0.2569%	0.4015%	0.6050%	0.8690%	1.6775%
6	0.0022%	0.0231%	0.0490%	0.1007%	0.1815%	0.3207%	0.5005%	0.7535%	1.0835%	2.0350%
7	0.0029%	0.0297%	0.0611%	0.1249%	0.2233%	0.3905%	0.6105%	0.9185%	1.3255%	2.3815%
8	0.0036%	0.0369%	0.0743%	0.1496%	0.2640%	0.4560%	0.7150%	1.0835%	1.5675%	2.7335%
9	0.0045%	0.0451%	0.0902%	0.1799%	0.3152%	0.5401%	0.8360%	1.2485%	1.7820%	3.0635%
10	0.0055%	0.0550%	0.1100%	0.2200%	0.3850%	0.6600%	0.9900%	1.4300%	1.9800%	3.3550%
11	0.0067%	0.0719%	0.1371%	0.3540%	0.5709%	0.7877%	1.2826%	1.7773%	2.2719%	4.2333%
12	0.0079%	0.0876%	0.1674%	0.4199%	0.6723%	0.9248%	1.4738%	2.0226%	2.5714%	4.6683%
13	0.0092%	0.1051%	0.2009%	0.4909%	0.7808%	1.0707%	1.6732%	2.2755%	2.8778%	5.1006%
14	0.0107%	0.1241%	0.2376%	0.5668%	0.8958%	1.2249%	1.8799%	2.5347%	3.1895%	5.5287%
15	0.0122%	0.1449%	0.2776%	0.6473%	1.0169%	1.3866%	2.0929%	2.7991%	3.5052%	5.9513%
16	0.0138%	0.1672%	0.3207%	0.7322%	1.1437%	1.5552%	2.3114%	3.0675%	3.8236%	6.3675%
17	0.0154%	0.1911%	0.3669%	0.8213%	1.2756%	1.7300%	2.5346%	3.3390%	4.1433%	6.7767%
18	0.0171%	0.2166%	0.4162%	0.9143%	1.4123%	1.9103%	2.7615%	3.6125%	4.4635%	7.1781%
19	0.0189%	0.2436%	0.4684%	1.0109%	1.5532%	2.0955%	2.9916%	3.8874%	4.7832%	7.5714%
20	0.0207%	0.2721%	0.5235%	1.1108%	1.6979%	2.2850%	3.2240%	4.1628%	5.1015%	7.9562%
21	0.0226%	0.3020%	0.5814%	1.2137%	1.8460%	2.4782%	3.4583%	4.4381%	5.4179%	8.3323%
22	0.0246%	0.3332%	0.6419%	1.3195%	1.9970%	2.6744%	3.6936%	4.7126%	5.7315%	8.6995%
23	0.0265%	0.3658%	0.7050%	1.4279%	2.1505%	2.8732%	3.9297%	4.9858%	6.0419%	9.0578%
24	0.0286%	0.3996%	0.7706%	1.5385%	2.3063%	3.0740%	4.1658%	5.2573%	6.3487%	9.4071%
25	0.0306%	0.4345%	0.8384%	1.6513%	2.4639%	3.2764%	4.4017%	5.5266%	6.6515%	9.7475%
26	0.0327%	0.4706%	0.9085%	1.7658%	2.6229%	3.4799%	4.6368%	5.7934%	6.9499%	10.0791%
27	0.0349%	0.5078%	0.9807%	1.8820%	2.7831%	3.6841%	4.8709%	6.0573%	7.2437%	10.4020%
28	0.0370%	0.5459%	1.0548%	1.9996%	2.9441%	3.8886%	5.1035%	6.3180%	7.5326%	10.7163%
29	0.0392%	0.5850%	1.1308%	2.1184%	3.1057%	4.0931%	5.3344%	6.5754%	7.8165%	11.0221%
30	0.0414%	0.6249%	1.2084%	2.2382%	3.2676%	4.2971%	5.5634%	6.8293%	8.0952%	11.3197%

Year	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3
1	0.4785%	0.8580%	1.5455%	2.5740%	3.9380%	6.3910%	9.5599%	14.3000%	28.0446%
2	1.1110%	1.9085%	3.0305%	4.6090%	6.4185%	9.1355%	12.7788%	17.8750%	31.3548%
3	1.7215%	2.8490%	4.3285%	6.3690%	8.5525%	11.5665%	15.7512%	21.4500%	34.3475%
4	2.3100%	3.7400%	5.3845%	7.6175%	9.9715%	13.2220%	17.8634%	24.1340%	36.4331%
5	2.9040%	4.6255%	6.5230%	8.8660%	11.3905%	14.8775%	19.9726%	26.8125%	38.4017%
6	3.4375%	5.3735%	7.4195%	9.8395%	12.4575%	16.0600%	21.4317%	28.6000%	39.6611%
7	3.8830%	5.8850%	8.0410%	10.5215%	13.2055%	17.0500%	22.7620%	30.3875%	40.8817%
8	4.3395%	6.4130%	8.6405%	11.1265%	13.8325%	17.9190%	24.0113%	32.1750%	42.0669%
9	4.7795%	6.9575%	9.1905%	11.6820%	14.4210%	18.5790%	25.1195%	33.9625%	43.2196%
10	5.1700%	7.4250%	9.7130%	12.2100%	14.9600%	19.1950%	26.2350%	35.7500%	44.3850%
11	6.1940%	8.1547%	10.7874%	13.4192%	16.0511%	20.6128%	27.4851%	36.6485%	44.8962%
12	6.7647%	8.8610%	11.5936%	14.3255%	17.0573%	21.9203%	28.6344%	37.4049%	45.3571%
13	7.3228%	9.5449%	12.3605%	15.1752%	17.9899%	23.1321%	29.6671%	38.0482%	45.7455%
14	7.8671%	10.2055%	13.0890%	15.9717%	18.8544%	24.2555%	30.5988%	38.6010%	46.0766%
15	8.3966%	10.8419%	13.7806%	16.7185%	19.6564%	25.2976%	31.4428%	39.0808%	46.3621%
16	8.9108%	11.4540%	14.4369%	17.4189%	20.4009%	26.2651%	32.2103%	39.5012%	46.6108%
17	9.4092%	12.0418%	15.0595%	18.0762%	21.0930%	27.1643%	32.9108%	39.8729%	46.8296%
18	9.8919%	12.6057%	15.6501%	18.6935%	21.7370%	28.0012%	33.5524%	40.2042%	47.0237%

Year	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3
19	10.3588%	13.1461%	16.2104%	19.2738%	22.3371%	28.7810%	34.1421%	40.5017%	47.1974%
20	10.8100%	13.6638%	16.7422%	19.8197%	22.8972%	29.5087%	34.6857%	40.7708%	47.3539%
21	11.2458%	14.1593%	17.2470%	20.3337%	23.4205%	30.1888%	35.1882%	41.0156%	47.4959%
22	11.6666%	14.6337%	17.7265%	20.8184%	23.9103%	30.8252%	35.6542%	41.2396%	47.6254%
23	12.0727%	15.0876%	18.1821%	21.2757%	24.3693%	31.4217%	36.0873%	41.4456%	47.7442%
24	12.4645%	15.5220%	18.6153%	21.7077%	24.8002%	31.9816%	36.4908%	41.6358%	47.8536%
25	12.8426%	15.9377%	19.0275%	22.1163%	25.2051%	32.5078%	36.8676%	41.8121%	47.9548%
26	13.2074%	16.3357%	19.4198%	22.5031%	25.5863%	33.0031%	37.2202%	41.9761%	48.0488%
27	13.5594%	16.7168%	19.7936%	22.8696%	25.9456%	33.4699%	37.5508%	42.1292%	48.1363%
28	13.8990%	17.0817%	20.1500%	23.2173%	26.2846%	33.9105%	37.8613%	42.2725%	48.2181%
29	14.2268%	17.4314%	20.4899%	23.5475%	26.6050%	34.3268%	38.1536%	42.4069%	48.2947%
30	14.5432%	17.7667%	20.8144%	23.8613%	26.9082%	34.7208%	38.4290%	42.5333%	48.3667%

ANNEX A

Form of Class E Shares Purchase and Transfer Letter

JPMorgan Chase Bank (London office)
9 Thomas More Street
London, E1W 1YT
United Kingdom

Re: Sierra Madre Funding, Ltd. Class E Shares

Ladies and Gentlemen:

Reference is hereby made to the Class E Shares issued by Sierra Madre Funding, Ltd. (the "Issuer"), described in the Issuer's offering circular dated July 27, 2004 ("Offering Circular") to be purchased and held by us in definitive certificated form. We (the "Purchaser") are purchasing [ ] Class E Shares (the "Purchased Class E Shares"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is (check one) (x) __ a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer") that is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(d) or (a)(1)(e) of Rule 144A or a trust fund referred to in paragraph (a)(1)(f) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by the beneficiaries of the plan, (y) __ an accredited investor (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than $10 million, (z) __ a non-U.S. Person (as defined in Regulation S under the Securities Act) that is acquiring the Purchased Class E Shares in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S of the Securities Act. (ii) The Purchaser, in the case of clause (x) above, is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser") and in the case of clause (y) above, is a Qualified Purchaser. (iii) The Purchaser is aware that the sale of the Purchased Class E Shares to the Purchaser is being made in reliance on an exemption from registration under the Securities Act. (iv) The Purchaser is acquiring not less than $250,000 of Purchased Class E Shares. (v) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchased Class E Shares, it will not transfer or cause the transfer of such Purchased Class E Shares without obtaining from the transferee a certificate substantially in the form of this letter. (vi) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchased Class E Shares in an amount equal to or exceeding the minimum permitted number thereof for its own account (or, if the Purchaser is a Qualified Institutional Buyer, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular and the Class E Shares Paying and Transfer Agency Agreement).

(c) The Purchaser understands that the Purchased Class E Shares have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only in accordance with the restrictions on transfer set forth herein and in the Class E Shares Paying and Transfer Agency Agreement and the Issuer's Memorandum and Articles of Association. The Purchaser understands and agrees that any purported transfer of Purchased Class E Shares to a purchaser that does not comply with the requirements herein will not be permitted or registered by the Class E Share Transfer Agent. The Purchaser further understands that the Issuer has the right to compel any beneficial owner of Purchased Class E Shares that is a U.S. Person and is not (a) either a Qualified Institutional Buyer or an Accredited Investor and (b) a Qualified Purchaser as described in clause (a) above, to sell its interest in such Purchased Class E Shares, or the Issuer may sell such Purchased Class E Shares on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Purchased Class E Shares is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Class E Shares for any account, each such account) is acquiring the Purchaser's Purchased Class E Shares as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Purchased Class E Shares (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than $25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Purchased Class E Shares for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchased Class E Shares or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Class E Shares. The Purchaser understands and agrees that any purported transfer of the Purchaser's Class E Shares to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Class E Share Transfer Agent.

(e) In connection with the purchase of the Purchaser's Purchased Class E Shares: (i) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Administrator or the Share Trustee is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Collateral Manager, the Issuer Manager or the Trustee other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, any Hedge Counterparty, the Put Counterparty, the Collateral Manager, the Administrator or the Share Trustee has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in

the Purchaser's Class E Shares; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Class E Shares Paying and Transfer Agency Agreement) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, any Hedge Counterparty, the Put Counterparty, the Collateral Manager, the Administrator or the Share Trustee; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Class E Shares with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates for the Class E Shares will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Class E Shares Paying and Transfer Agency Agreement and applicable law:

THE CLASS E SHARES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, DATED JULY 29, 2004 (THE "CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT") BY AND AMONG THE ISSUER OF THE CLASS E SHARES, JPMORGAN CHASE BANK (LONDON OFFICE), AS CLASS E SHARE PAYING AGENT AND CLASS E SHARE TRANSFER AGENT AND MAPLES FINANCE LIMITED, AS SHARE REGISTRAR. COPIES OF THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT MAY BE OBTAINED FROM THE CLASS E SHARE PAYING AGENT, THE CLASS E SHARE TRANSFER AGENT OR THE SHARE REGISTRAR.

THE CLASS E SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE CLASS E SHARES, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH CLASS E SHARES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY BENEFICIARIES OF THE PLAN, AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN $10 MILLION IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN AN AMOUNT OF NOT LESS THAN $250,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY

CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE CLASS E SHARE TRANSFER AGENT. EACH TRANSFEROR OF THE CLASS E SHARES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF A CLASS E SHARE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN $10 MILLION TO SELL SUCH CLASS E SHARES, OR MAY SELL SUCH CLASS E SHARES, ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF CLASS E SHARES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E SHARES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE CLASS E SHARE TRANSFER AGENT A CLASS E SHARES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (1)(X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY BENEFICIARIES OF THE PLAN, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN $10 MILLION AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

IF THE TRANSFER OF CLASS E SHARES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E SHARES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE CLASS E SHARE TRANSFER AGENT A CLASS E SHARES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE CLASS E SHARES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE CLASS E SHARE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN SECTION 4975 OF THE CODE, WHETHER OR NOT SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF

ERISA BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER IS A BENEFIT PLAN INVESTOR, EITHER (X) THE PURCHASE AND HOLDING OF CLASS E SHARES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF AN EMPLOYEE BENEFIT PLAN NOT SUBJECT TO ERISA OR SECTION 4975 OF THE CODE, ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE) FOR WHICH AN EXEMPTION IS NOT AVAILABLE OR (Y) THE PURCHASE AND HOLDING OF CLASS E SHARES IS EXEMPT UNDER AN IDENTIFIED PROHIBITED TRANSACTION CLASS EXEMPTION OR INDIVIDUAL EXEMPTION, BASED ON THE ASSUMPTION THAT LESS THAN 25% OF THE OUTSTANDING CLASS E SHARES ARE OWNED BY BENEFIT PLAN INVESTORS; AND (iii) WHETHER OR NOT IT IS THE ISSUER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) THAT HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN ITS GENERAL ACCOUNT THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE INSURANCE COMPANY WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN A CLASS E SHARE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE CLASS E SHARE AGENT WITH A CLASS E SHARES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE CLASS E SHARE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E SHARES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS E SHARES IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND WITH THE CLASS E SHARES PAYING AND TRANSFER AGENCY AGREEMENT.

DISTRIBUTIONS TO THE HOLDERS OF THE CLASS E SHARES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(g) With respect to Class E Shares, transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (g) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Class E Shares.

(x) The Purchaser is __ is not __ (check one) (i) an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not subject to Title I of ERISA, (ii) a "plan" described in Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), whether or not subject to Section 4975 of the Code, or (iii) an entity whose underlying assets include "plan assets" of any such employee benefit plan or plan (for purposes of ERISA or Section 4975 of the Code) by reason of a plan's investment in the entity (such persons

and entities described in clauses (i) through (iii) being referred to herein as "Benefit Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor, the Purchaser's purchase and holding of a Class E Share do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan not subject to Title I of ERISA or Section 4975 of the Code, any federal, state, local or foreign law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code) for which an exemption is not available.

The Purchaser is _____ is not _____ (check one) the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is an insurance company acting on behalf of its general account, then (i) not more than ____% [complete by entering a percentage] (the "Maximum Percentage") of the assets of such general account constitutes assets of Benefit Plan Investors for purposes of the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, (x) the Purchaser agrees that it shall notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Purchased Class E Shares as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Class E Shares as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

(h) The Purchaser understands and acknowledges that the Class E Share Transfer Agent will not register any purchase or transfer of Purchased Class E Shares either to a proposed initial purchaser or to a proposed subsequent transferee of Purchased Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the outstanding Class E Shares. For purposes of this determination, Class E Shares held by the Collateral Manager, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase or transfer of the Purchaser's Purchased Class E Shares to a Purchaser that does not comply with the requirements of this clause (i) will not be permitted or registered by the Class E Share Transfer Agent.

(i) The purchaser is not purchasing the Purchaser's Class E Shares with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Class E Shares involves certain risks, including the risk of loss of its entire investment in the Purchaser's Class E Shares under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Purchased Class E Shares as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Purchased Class E Shares, including an opportunity to ask questions of, and request information from, the Issuer.

(j) The Purchaser is not purchasing the Purchaser's Class E Shares in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan with respect to United States federal income taxes within the meaning of U.S. Treasury Regulation Section 1.881-3(a)(4).

(k) The Purchaser agrees to treat the Purchaser's Class E Shares as equity for United States federal, state and local income tax purposes.

(l) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Class E Share Transfer Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Class E Share Transfer Agent shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

(m) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(n) The Purchaser is not a member of the public in the Cayman Islands.

We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,
[ ]

By: _____
Name
Title

Receipt acknowledged as of date set forth above,

_____
(Signature and Addresses)

REGISTERED OFFICES OF THE ISSUERS

SIERRA MADRE FUNDING, LTD.

P.O. Box 1093 GT
Queensgate House, South Church Street
George Town, Grand Cayman, Cayman Islands

SIERRA MADRE FUNDING (DELAWARE) CORP.

850 Library Avenue, Suite 204
Newark, Delaware 19711

TRUSTEE, SECURITIES INTERMEDIARY, NOTE PAYING AGENT, NOTE AUTHENTICATING AGENT, NOTE CALCULATION AGENT, NOTE REGISTRAR,

JPMorgan Chase Bank
600 Travis Street, 50th Floor
Houston, Texas 77002

COLLATERAL MANAGER

Western Asset Management Company
117 East Colorado Boulevard
Pasadena, California 91105

CLASS E SHARE PAYING AGENT,
CLASS E SHARE TRANSFER AGENT

JPMorgan Chase Bank (London office)
9 Thomas More Street
London, E1W 1YT
United Kingdom

LEGAL ADVISORS

To the Issuers and the Initial Purchaser
As to Matters of United States Law

Orrick, Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103

To the Issuer
As to matters of Cayman Islands Law

Maples and Calder
P.O. Box 309 GT
Ugland House, South Church Street
George Town, Grand Cayman, Cayman Islands

To the Trustee, Securities Intermediary, Note Paying Agent, Note Authenticating Agent, Note Calculation Agent, Note Registrar, Class E Share Paying Agent and Class E Share Transfer Agent

Hunton & Williams LLP
1900 K Street, N.W.
Washington, D.C. 20006

To the Collateral Manager
As to Matters of United States Law

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

No dealer, salesperson or other person has been authorized to give any information or to represent anything not contained in this offering circular. This offering circular is an offer to sell only the Securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this offering circular is current only as of its date.

TABLE OF CONTENTS

SIERRA MADRE FUNDING, LTD.

SIERRA MADRE FUNDING (DELAWARE) CORP.

U.S.$400,000,000
Class A-1LT-a Floating Rate Notes Due 2039

U.S.$57,500,000
Class A-2 Floating Rate Notes Due 2039

U.S.$40,500,000
Class B Floating Rate Notes Due 2039

U.S.$24,000,000
Class C Floating Rate Notes Due 2039

U.S.$15,000,000
Class D Floating Rate Notes Due 2039

18,000 Class E Shares
(Par Value U.S.$0.01 Per Share)

Secured (with respect to the Notes) Primarily by a Portfolio of Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, CDO Securities, Insured Securities, Asset-Backed Securities, REIT Debt Securities and Interest Only Securities

---

OFFERING CIRCULAR

Goldman, Sachs & Co.